ENERGY TAX OPTIONS

HEARING

BEFORE THE

SUBCOMMITTEE ON
ENERGY AND AGRICULTURAL TAXATION

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

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SECOND SESSION

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ENERGY TAX OPTIONS

WEDNESDAY, JUNE 9, 1982

U.S. SENATE,
SENATE FINANCE COMMITTEE,
SUBCOMMITTEE ON ENERGY AND AGRICULTURAL TAXATION,
Washington, D.C.

The committee met, pursuant to notice, at 2:11 p.m. in room 2221, Dirksen Senate Office Building, Hon. Malcolm Wallop (chairman) presiding.

Present: Senators Wallop, Dole, Chafee, Durenberger, Symms, Bentsen, Boren, Long, and Bradley.

[The press release announcing the hearing, the prepared statements of Senators Wallop and Chafee, and a pamphlet by the Joint Committee on Taxation follow:]

Press Release No. 82-140

PRESS RELEASE

FOR IMMEDIATE RELEASE
June 2, 1982

UNITED STATES SENATE
COMMITTEE ON FINANCE
Subcommittee on Energy
and Agricultural Taxation
2227 Dirksen Senate
Office Building

FINANCE SUBCOMMITTEE ON ENERGY AND AGRICULTURAL TAXATION SETS HEARING ON ENERGY TAX OPTIONS

Senator Malcolm Wallop, Chairman of the Subcommittee on Energy and Agricultural Taxation of the Senate Committee on Finance, announced today that the Subcommittee will hold a hearing on Wednesday, June 9, 1982, on various energy tax revenue raising options.

The hearing will begin at 2:00 p.m. on June 9, 1982, in Room 2221 of the Dirksen Senate Office Building.

The following are among the basic energy tax options that have been mentioned as possible alternatives:

(1) an ad valorem tax on all fuels (oil, natural gas, coal, nuclear, and hydroelectric power);

(2) a tax on all fuels based on the British Thermal Unit content of the fuel;

(3) a fee on imported crude oil and petroleum products;

(4) an excise tax on imported and domestic oil; and

(5) an increase in the Federal excise tax on gasoline and other motor fuels.

Senator Wallop stated "In holding this hearing it is my hope that witnesses will discuss our present energy situation with regard to energy supplies, both domestic and foreign, as well as the current prospects for domestic resource exploration and development. It is equally important that as the Congress begins to consider different avenues for raising revenues, that we have the information necessary to make an informed judgment as to the effect of possible energy tax alternatives on consumers and industry, as well as the probable impacts on the course of future domestic energy resource development. I also hope that witnesses will discuss the administrative problems associated with such options and at what level the tax should be imposed.

Statement of Senator Malcolm Wallop

Let me start the hearing this afternoon by thanking those of you who have come to testify before the subcommittee on such short notice. All of us would agree, I'm sure, that there are few issues which cause Senators to sharpen their swords for battle like energy taxes. It is understandable and all the more reason for having this hearing today. In less than a week it may very well be that the Finance Committee will be meeting in this room going through the tortuous exercise of putting together a revenue package to take to the floor of the Senate. But before that process begins, I felt it was of the utmost importance that we have the advantage of the information and counsel that will be offered today on the impact of raising new revenue through the imposition of any one, or a combination of, the various energy tax alternatives which have been mentioned as possible components of a revenue raising package.

The thought of raising revenue now is not one I am comfortable with. But after we have done what we can do with regard to taxpayer compliance and closing of loopholes, some difficult choices are going to have to be made by all of us as to how we achieve the revenue mandate imposed on us by the budget resolution. For sure I am not going to tell the citizens of Wyoming or the people of this country anywhere that Congress is going to take away their tax cut because they would never miss what they didn't get. And by the same token, I am not going to vote for other tax proposals, such as the "alternative minimum tax", where the impacts beyond the cost in dollars can only be characterized as devastating. Not long ago I asked that an economic study be done on the impact of the minimum tax proposal on Wyoming. And it was the conclusion of that report that not only would the minimum tax proposal result in a significant reduction in drilling activity in Wyoming, but that it would put in excess of 30,000 Wyoming workers out of a job. And while there may be some room for dispute regarding the economic assumptions used in that study, the message of them is clear. That type of tax is devastating to Wyoming, and ultimately to the rest of the country which must depend on Wyoming for a substantial amount of its energy needs.

I do not mean to compare the alternative minimum tax to the energy tax alternatives we are going to discuss here today, but if any of these energy tax proposals would have similar effects, then it is important that the Congress be aware of the gravity of the impact on supplies, on production, on industry, and ultimately on the consumer. Several alternatives have been mentioned as possible ways of raising revenue through energy taxes. This does not mean that any one, or a combination of those, will finally be enacted by the Congress. Let me stress that it is not my purpose in holding this hearing today to offer you a menu and ask you to pick one. Rather, I would hope that you will advise us as to the current state of energy production and supply, and what consequences you would anticipate with the imposition of one or more of the energy tax aternatives. Keep in mind that your judgment must not only be fair, it must be perceived as fair and that your purpose is to do you fair share.

In conclusion, I would reaffirm my position with regard to what must be done by the Finance Committee in the coming days. Clearly, it must be our first priority to continue making significant reductions in the rate of growth of government spending, and indeed I will not vote to raise any additional revenue until those commitments are made. Quite simply, we must raise revenue to reduce the deficit and get this Congress on the road to fiscal responsibility, but we must not raise revenues to buy the fertilizers for the pasture of the sacred cows. Elections cost enough without buying them through public tax monies.

Statement by Senator John H. Chafee

Thank you, Mr. Chairman. One of the energy tax alternatives being considered by this committee is a fee on imported oil and domestic oil. As the members of this committee are well aware, I oppose any proposal to impose an oil import fee as highly inflationary and inequitable and joined Senator Mitchell and 17 cosponsors in introducing S. Res. 369 stating our opposition to such a fee.

My opposition is based not only on the devastating effect that an oil import fee would have on the New England economy but also on the negative impact the fee would have on the nation's economy. Groups representing farm, labor, agricultural, consumer and industry from the midwest and other parts of the country have begun to realize that an oil import fee would not only be bad for New England but for the rest of the country, as well.

Mr. Chairman, I am very concerned that this committee may view an oil import fee as an easy way to raise several billions of dollars. Yet, this point of view fails to recognize that the imposition of an oil import fee would be much more inflationary, regressive and distorting than any other major Federal tax. As a tool of energy policy, an import fee would be at best symbolic and at worst counterproductive.

Most importantly, the imposition of an oil import fee would reverse the only good economic news that consumers have had in recent years. The decline in the inflation rate, prompted in large measure by falling oil prices, would be halted by such a policy. A $5 per barrel fee would raise the Consumer Price Index by nearly 1 percentage point according to a preliminary CBO estimate. Consumers would lose $20 to $30 billion if a $5 fee were adopted.

Second, an oil import fee would be a highly inefficient method of raising revenue. The Federal Government would collect only about $10 billion of the $20 to $30 billion that a $5 fee would cost consumers. The remainder goes to oil companies, as prices rise on domestic oil to match the rise in imported oil prices. We believe that the Federal Goverment should pursue more efficient revenue-raising options.

Third, the burden of an import fee would not be evenly distributed among income classes, industries, or geographic regions. Its effect would be highly distorting and regressive.

In 1980, Congress overwhelmingly rejected President Carter's oil import fee. Such a proposal is no more appropriate now than it was 2 years ago.

A number of the Witnesses here to day will elaborate further on the points I have made.

TAXES ON ENERGY CONSUMPTION

SCHEDULED FOR A HEARING

BEFORE THE

SUBCOMMITTEE ON ENERGY AND AGRICULTURAL TAXATION

PREPARED FOR THE USE OF THE

COMMITTEE ON FINANCE

BY THE STAFF OF THE

JOINT COMMITTEE ON TAXATION

INTRODUCTION

This pamphlet provides a brief analysis of possible taxes on energy consumption. It has been prepared in connection with the hearing of the Senate Finance Committee's Subcommittee on Energy and Agricultural Taxation scheduled for June 9, 1982.

The subject of the hearing is five proposed taxes on energy consumption:

(1) an ad valorem tax on all major energy sources (oil, natural gas, coal, nuclear power, and hydroelectric power);
(2) a tax on major energy sources based on their Btu content;
(3) an oil import fee;
(4) an excise tax on U.S. oil consumption; and
(5) an increase in the taxes on gasoline and other motor fuels.

Part I of the pamphlet provides a brief description of present law. Part II describes the proposals which are the subject of the hearing. Part III discusses U.S. energy consumption patterns. Part IV is a brief analysis of a number of issues which arise in analyzing energy taxes.

I. PRESENT LAW

A. Highway Trust Fund Taxes

Several taxes on energy consumption are imposed to finance the Highway Trust Fund. There are taxes on gasoline, diesel fuel and other motor fuels equal to 4 cents per gallon (scheduled to decline to 1½ cents per gallon after September 30, 1984). There are exemptions from these taxes for certain off-highway uses and for gasohol. Other Highway Trust Fund taxes include taxes on lubricating oil, tires and tubes, tread rubber, trucks and trailers, and truck parts and accessories, as well as a use tax on heavy motor vehicles.

B. Gas Guzzler Tax

There is a tax on new passenger automobiles that fail to meet prescribed fuel efficiency standards. The tax requires greater and greater efficiency until 1986, at which time the tax will apply to cars whose fuel economy is less than 22½ miles per gallon and will be $3,850 for cars with efficiencies below 12.5 miles per gallon. The gas guzzler tax in effect for model year 1982 applies only to a very small number of car models.

C. Import Fee Authority

Under the Trade Expansion Act of 1962, the President can impose oil import fees or other import restrictions if he finds that imports threaten the nation's security. Congress may roll back such fees by passing a joint resolution of disapproval. However, this resolution can be vetoed by the President, in which case the fees he imposed would continue in effect unless the President's veto is overridden by a two-thirds vote of both Houses of Congress. Only nominal oil import fees are now in effect. However, the presidential import fee authority was used by Presidents Nixon, Ford and Carter.

D. Inland Waterways Fuel Tax

There is a tax on diesel and other liquid fuels used for commercial cargo vessels on inland or intra-coastal waterways. The present tax is 6 cents per gallon. It is scheduled to increase to 8 cents per gallon on October 1, 1983, and to 10 cents per gallon on October 1, 1985.

E. Aviation Excise Taxes

A series of taxes are imposed on aviation. These funded the Airport and Airway Trust Fund until October 1, 1980.[1] Currently, there is a 5-percent tax on domestic air passenger tickets, a 4-cents-per-gallon tax on gasoline used in general aviation, and taxes on aircraft tires and tubes.

F. Superfund Taxes

Excise taxes are imposed on crude oil and certain chemicals to fund the Hazardous Substance Response Trust Fund. The crude oil tax is 0.79 cent per barrel and is imposed on the receipt of crude oil at a U.S. refinery, the import of crude oil products and, if the tax has not already been paid, the use or export of domestically produced crude oil. The tax on certain chemicals ranges from 22 cents to $4.87 per ton.

G. Black Lung Excise Tax on Coal

There is a manufacturers excise tax on domestically mined coal (other than lignite), the revenues from which are deposited in the Black Lung Disability Trust Fund. The rate of the tax is currently the lesser of (1) $1 per ton for coal from underground mines and 50 cents per ton for coal from surface mines or (2) 4 percent of the price for which the coal is sold. These rates are scheduled to be cut in half (to the pre-1982 level) when the Black Lung Disability Trust Fund is solvent or in 1996, whichever is earlier.

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[1] During the period between July 1, 1970, and September 30, 1980, the following aviation excise taxes applied: 8-percent tax on domestic air passenger tickets; 5-percent tax on domestic air freight waybills; a $3 per person international departure tax; a 7-cents-a-gallon tax on gasoline and nongasoline (i.e., jet) fuels used by noncommercial (general) aviation; an annual aircraft use tax; and the taxes on aircraft tires and tubes.

II. POSSIBLE ENERGY TAX PROPOSALS[1]

A. Btu Tax

There could be a tax on the consumption of energy in the United States equal to a fixed amount per Btu. (A Btu, or British thermal unit, is a measure of energy content.)[2] One million Btu's are contained in 975 cubic feet of natural gas, 0.17 barrels or 7.2 gallons of crude oil, 0.04 tons of coal, or 293 kilowatt-hours of electricity. Presumably any such Btu tax would exempt renewable energy sources like solar and wind energy, and it could also be structured to exempt nonrenewable synfuels like shale oil. Because the tax would be designed to tax U.S. energy consumption, there presumably would be a rebate for fuel exports (largely coal), and the tax would be imposed on fuel imports.

B. Ad Valorem Energy Tax

A second alternative would be to impose a tax on domestic energy consumption based on the value of the fuels. (An ad valorem tax is an excise tax based on value.) Under this alternative, exactly where the fuel tax will be imposed is very important, since value is added to the fuel through the various stages of refining, processing, transportation and marketing until it is sold to the ultimate consumer. The closer to the wellhead, mine mouth or power plant a particular ad valorem tax is imposed on a fuel, the lower will be the tax on that particular fuel.

There could be a hybrid between a Btu tax and an ad valorem tax in which the tax is imposed on each energy source (oil, gas, coal, hydro and nuclear) according to Btu content, but in which the tax rates vary from one energy source to another so that they are equal to approximately the same percentage of the national average price of the energy source. For example, if the national average oil price is $30 per barrel and the rate 10 percent, there would be a $3.00 per barrel tax on all oil consumption, which would not vary according to the price of any particular barrel of oil. If the national average price of natural gas were $2.00 per thousand cubic feet, the tax rate on gas would be 20 cents, regardless of the actual price at which the gas were sold. These tax rates could change annually based on increases in fuel prices.

C. Import Fee on Oil and Petroleum Products

A fee could be imposed on imported crude oil and petroleum products. This could be done either by legislation or by the President if he finds the fee necessary to promote the nation's security. The amount of the fee could be the same on imported crude oil as on im-

[1] The five energy tax proposals described in this part of the pamphlet are the ones listed in the Finance Committee press release, dated June 2, 1982.

[2] One Btu is the amount of energy needed to raise the temperature of one pound of water by one degree Farenheit.

ported petroleum products, or a larger fee could be imposed on imported petroleum products in order to provide tariff protection for domestic oil refiners. The fee could be a fixed amount per barrel, or it could be a percentage of the value of the oil (ad valorem). The fee itself would generate additional tax revenues, and it would lead to additional windfall profit tax revenues because it would raise the price of oil produced by domestic producers.

D. Tax on Oil Consumption

A tax could be imposed on domestic consumption of oil (both imported and domestically produced oil). This could be structured in a way similar to the superfund tax of present law, except with a rebate of the tax for exports. This tax could either be a fixed amount per barrel or a percentage of the price.

E. Tax on Gasoline and Other Motor Fuels

There could be an increase in the existing excise taxes on gasoline and other motor fuels. This could be structured simply as an increase in the present Highway Trust Fund taxes, or the additional tax could also apply to some of the uses of gasoline which are exempt under the present Highway Trust Fund taxes, such as the exemptions for off-highway uses or for gasohol. Also, the fuels taxes could be converted from a per-gallon tax to an ad valorem tax. The revenues from the additional tax could go into the Highway Trust Fund as do the present tax revenues, or could go into the general fund of the Treasury.

III. PATTERN OF U.S. ENERGY CONSUMPTION

Table 1 shows U.S. energy consumption in 1981 by source of energy and by consuming sector. The United States consumed 73.8 quadrillion Btu's (quads) of energy last year, of which 43 percent was petroleum, 27 percent was natural gas and 22 percent was coal. (These figures include the use of oil, gas and coal to generate electricity.) The residential and commercial sector used 35 percent of this energy, the industrial sector 39 percent, and the transportation sector 26 percent.

Table 2 shows how energy use has declined in recent years. Between 1950 and 1973, energy consumption rose at an annual rate of 3.5 percent. This growth can be explained entirely by the expansion of the economy: energy consumption per dollar of GNP fell at an annual rate of 0.3 percent over the whole period. (Actually energy consumption per dollar of GNP declined through the 1950's and early 1960's, rose in the late 1960's and declined again in the early 1970's.) After the 1973 oil shock, the growth rate of energy consumption declined to 0.9 percent, and the decline in energy use per dollar of GNP accelerated to a rate of 1.7 percent. Since the 1979 surge in energy prices, the use of energy has declined at a rate of 1.9 percent, and energy use per dollar of GNP has declined at a rate of 3.4 percent.

Petroleum consumption, also shown in table 2, rose faster than total energy consumption between 1950 and 1973 and also rose faster than GNP. After 1973, oil consumption fell per dollar of GNP, but it continued to rise at a rate of 1.7 percent in absolute terms. Since 1978, however, petroleum consumption has fallen more rapidly than overall energy consumption. Per dollar of GNP, oil consumption has fallen at a rate of 7.1 percent in the last three years.

Table 3 shows the nation's dependence on petroleum imports since 1973. Between 1973 and 1977, imports rose from 6.3 million barrels per day to 8.8 million barrels per day, representing close to half domestic oil consumption that year. Since then, imports have fallen to 6.0 million barrels per day; however, they still represent a large, fraction of oil consumption than they did prior to the 1973 Arab oil embargo.

Table 1.—U.S. Energy Consumption, 1981

Item	Quadrillion Btu's	Percent of total
Source of energy:		
Coal	16.0	21.7
Natural gas	19.8	26.8
Petroleum	32.0	43.4
Hydroelectric power	3.0	4.0
Nuclear electric power	2.9	3.9
Total	73.8	100.0
Consuming sector:		
Residential and commercial	25.7	34.8
Industrial	28.9	39.1
Transportation	19.2	26.0
Total	73.8	100.0

(7)

Table 2.—Annual Average Growth Rate of U.S. Energy Consumption for Selected Periods

Period	Energy consumption (percent)	Energy consumption per dollar of GNP (percent)	Oil consumption (percent)	Oil consumption per dollar of GNP (percent)
1950–73	3.5	−0.3	4.2	0.4
1973–78	.9	−1.7	1.7	−1.0
1978–81	−1.9	−3.4	−5.5	−7.1

Table 3.—Petroleum Imports, 1973–81

Year	Imports (million barrels per day)	Imports as percent of oil consumption
1973	6.3	36.2
1974	6.1	36.7
1975	6.1	37.1
1976	7.3	41.9
1977	8.8	47.8
1978	8.4	44.4
1979	8.5	45.7
1980	6.9	40.5
1981	6.0	37.3

IV. ISSUES

A. Effect on Energy Policy

Since the 1973 oil embargo, it has been generally accepted that the United States should try to reduce its dependence on oil imports. Excessive dependence on oil imports threatens national security, and the transfer of wealth from oil consumers to foreign oil producers because of the sharp rise in oil prices has had serious implications for both the standard of living of U.S. consumers and the stability of the world economy. Some argue that reducing U.S. oil imports would cause world oil prices to fall. Moreover, a case can be made that Congress should try to discourage use of forms of energy other than oil as well. There appear to be environmental problems associated with the use of coal, and regulations keep natural gas and electricity prices well below the marginal costs of producing these sources of energy.

A tax that raises the prices of energy to consumers can be expected to reduce U.S. energy consumption. During the debates on energy policy in the 1970's, there was a divergence of views on the extent to which energy consumption, especially oil consumption, would respond to price changes. However, the reductions in energy consumption in recent years appear to have settled the argument in favor of those who believed that energy consumers would respond to price signals. For example, between 1978 and 1981, the price of gasoline rose 50.6 percent more than overall consumer prices, and gasoline consumption per dollar of GNP fell by 15 percent. The price of heating oil rose by 76 percent relative to overall consumer prices, and distillate fuel consumption per dollar of GNP fell by 22 percent. (Distillate fuel includes not only home heating oil, but also diesel fuel for cars and light fuel oil used in industry.) If higher prices are maintained for a longer period of time, still more conservation can be expected as people buy more fuel efficient cars and make investments in ways to conserve energy at home. Industrial energy conservation has been especially impressive: since 1973, industrial use of energy has declined by 9.5 percent while industrial production has risen by 20 percent.

Also, higher prices received by oil producers can be expected to encourage additional oil drilling. Between 1973 and 1981, oil and gas drilling (as measured by the number of feet drilled) increased by 165 percent, largely in response to higher oil and gas prices.

The various energy tax proposals would have different impacts on energy production and consumption. An oil import fee would raise the price of oil paid by consumers, thereby encouraging conservation and conversion from oil to other fuels. It would also raise the price of domestically produced oil, which would increase the incentives of producers to produce such oil to the extent these additional price increases are not paid as windfall profit tax or State severance tax. (On

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average, the windfall profit tax would absorb about half of any additional revenues to domestic producers resulting from higher prices. For newly discovered oil, however, the windfall profit tax rate in 1983 will be 25 percent, and it will decline to 15 percent by 1986.) An import fee which had a higher rate on imports of petroleum products than on crude oil imports would have the further effect of giving domestic oil refiners an advantage over foreign oil refiners, which would increase the percentage of petroleum products refined in the United States. However, the higher fee on petroleum products could result in further increases in consumer prices.

A tax on oil consumption, applied to both domestically produced and imported oil, could be expected to have approximately the same impact on consumers as an oil import fee: in each case consumer prices would rise by approximately the amount of the fee or tax. However, the oil consumption tax would not provide any incentives for additional domestic production.

A gasoline tax would raise the price of gasoline paid by consumers, which would encourage people to drive less and to buy more fuel efficient cars. Because the conservation achieved by a higher gasoline tax would only occur with respect to one use of energy (transportation), the gasoline tax could be a less efficient way of encouraging conservation than a tax applied to all uses of oil because it would forego less painful means of conserving products other than gasoline.

A tax on all energy sources, either a Btu tax or an ad valorem energy tax, would encourage conservation of all energy sources subject to the tax. However, it would not be as effective in encouraging conversion from the use of oil to the use of other energy sources as would the other options because these other energy sources would be taxed as well. Because the price of energy varies from one source to another, a per-Btu tax would affect the various sources of energy differently than an ad valorem tax. Because coal has a low value per Btu, it would bear less of a burden under an ad valorem tax than under a per-Btu tax, as would natural gas, whose price is kept artificially low through price controls.

B. Regional Impact

Another issue is the extent to which taxes on energy consumption would fall unevenly across the regions of the United States. Because the amount of energy and the mix of energy sources consumed vary from State to State, an energy tax would not raise the same revenue per person in every state. For example, a Btu tax on major fuels would raise more revenue per capita in States where energy consumption per capita is above the national average and less revenue in States where consumption is below average.

In order to analyze the issue, the staff has estimated the geographic distribution of energy taxes under a Btu tax on major energy sources (coal, hydropower, natural gas, nuclear power and oil), an ad valorem tax on energy sources, a gasoline tax, an oil tax (with and without a home heating oil exemption) and a combined oil and gasoline tax. For comparability, the tax rates were set to raise the same total revenue ($100 per capita) under each tax variation. Generally, State energy consumption data were used to allocate the total revenue to the States.

However, revenue raised from one-half the energy consumed by businesses was allocated to States according to personal income on the assumption that half of the effect of these taxes would be reflected in higher prices for consumer goods, the purchase of which is related to personal income, and that half is reflected in lower wages and profits for workers and businesses in the State where the energy is used.

The estimated per capita energy tax in each State is shown in table 4. For example, under a gasoline tax, the per capita tax attributed to Alabama would be $104; that is, slightly higher than the national average of $100.

The last line in table 4 shows an index number that indicates the estimated geographic unevenness of the various possible energy taxes. This index number would be zero if the same per capita tax were attributed to every State. However, none of the proposals would achieve that result. The index number has been scaled so that it equals 100 for a Btu tax on major fuels, the proposal for which geographic disparity appears the greatest among the analyzed proposals.

These computations indicate that regional disparities would be relatively large under a Btu tax on major fuels or a gasoline tax, and smaller under an ad valorem tax on major fuels or an oil tax (with or without a home heating oil exemption). Regional disparities appear to be the smallest under a combined oil and gasoline tax in which the ratio of tax rates is approximately $1 per barrel of oil to 1 cent per gallon of gasoline.

It should be noted that the numbers in table 4 are based on several arbitrary assumptions. First, only half of business use of energy is allocated to the State where the energy is consumed. Second, it is assumed that a tax on any given fuel does not raise the price of competing fuels (e.g., an oil tax does not raise the price of coal or natural gas). Making different assumptions could change the results.

Table 4.—Geographic Distribution of Possible Energy Consumption Taxes

State	Per capita tax in State as percentage of per capita tax nationwide					
	Btu tax on major fuels	Ad valorem tax on major fuels	Gasoline tax	Oil tax (heating oil exempt)	Oil tax	Oil tax and gasoline tax
Alabama	109	103	104	89	85	94
Alaska	171	170	95	182	180	170
Arizona	90	89	106	93	89	92
Arkansas	96	104	109	118	113	109
California	89	93	103	104	99	97
Colorado	102	96	107	96	92	100
Connecticut	94	107	101	112	125	112
Delaware	101	112	104	161	160	128
District of Columbia	79	82	74	98	99	86
Florida	83	93	104	119	114	104
Georgia	89	89	111	92	88	96
Hawaii	82	97	75	151	143	119
Idaho	96	108	110	91	95	103
Illinois	111	105	97	101	101	102
Indiana	118	105	105	100	104	107
Iowa	102	102	110	103	102	108
Kansas	123	113	111	112	107	110
Kentucky	100	88	101	83	81	89
Louisiana	158	134	99	124	118	111
Maine	92	115	98	104	120	120
Maryland	89	93	96	102	103	97
Massachusetts	87	100	85	117	128	111
Michigan	102	96	104	93	94	96
Minnesota	102	102	104	92	97	103

Mississippi	84	93	98	120	114	105
Missouri	100	95	110	96	94	102
Montana	126	133	124	107	107	117
Nebraska	109	111	110	106	104	108
Nevada	124	119	133	129	125	127
New Hampshire	83	96	96	103	116	111
New Jersey	87	96	93	106	111	104
New Mexico	112	101	118	99	94	103
New York	85	92	73	96	106	95
North Carolina	82	84	105	84	83	91
North Dakota	129	119	119	108	107	111
Ohio	104	90	97	84	84	89
Oklahoma	118	111	119	103	97	107
Oregon	94	106	107	89	88	96
Pennsylvania	100	92	87	89	93	90
Rhode Island	75	83	83	83	96	95
South Carolina	82	95	106	89	87	92
South Dakota	106	115	120	107	105	111
Tennessee	83	86	107	87	82	91
Texas	128	117	119	108	103	111
Utah	95	88	100	85	82	90
Vermont	85	104	101	89	100	105
Virginia	85	93	104	106	105	102
Washington	115	128	100	92	90	96
West Virginia	132	89	91	73	72	78
Wisconsin	97	96	97	85	83	96
Wyoming	221	179	150	169	161	169
Index of geographic unevenness	100	41	80	38	36	20

[1] For each $1 per barrel of tax on oil, there would be an additional one cent per gallon tax on gasoline.

C. Competitive Questions

One issue that arises in analyzing energy consumption taxes is the extent to which they affect the competitive positions of industries which use different sources of energy, or the position of American industries versus foreign competition. For example, a tax on oil consumption or an oil import fee will raise the costs of industries who use oil as a fuel or feedstock relative to other industries which use natural gas, coal or other energy sources. While this will encourage the affected industries to conserve oil and convert to other fuels, it could cause dislocations to the firms who are unable to do this. Similarly, taxes which raise the price of energy to U.S. industries could hurt them relative to the foreign competitors who are not subject to these taxes. In the past, this has been mentioned as a particular problem in the petrochemical industry, which uses oil and gas as a feedstock and faces considerable competition from abroad. These competitive questions are one reason why some people have supported a gasoline tax, relatively little of which is used in industrial production.

D. Distributional Questions

One of the issues that arises in considering taxing energy consumption is the extent to which it will impose a disproportionate burden on lower income households. The data show that lower income households spend relatively more on the residential use of energy but relatively less on gasoline than middle and upper income households. Any adverse distributional effects of an energy tax, however, could be offset by appropriate adjustments to other tax rates in the context of a larger tax bill.

E. Macroeconomic Impact

Another issue in deciding whether an energy tax is desirable is its effect on the economy. Like many other excise taxes, an energy consumption tax can be expected to raise prices of the taxed items and, at least initially, to raise the overall price level. Also, a tax on oil could raise the price of competing fuels, like natural gas or coal. This would present a problem for the Federal Reserve System because, with higher consumer prices, people would want to hold more money. Unless the Fed accommodated this increased demand for money by increasing the money supply, the result would be higher interest rates. However, some argue that if the Fed increased the money supply to accommodate the higher energy prices, the result would be increased expectations of inflation, which would also lead to higher interest rates. It is also possible that higher energy prices could lead workers to demand higher wages and thereby exacerbate the wage-price spiral. To put these macroeconomic questions in perspective, it should be noted that in 1983 gross national product is expected to be $3.4 trillion, so that

an energy tax that raised prices by a total of $10 billion could be expected to have an initial impact on the price level amounting to no more than 0.3 percent.

There would be some favorable macroeconomic impacts of an energy tax. To the extent that it reduced oil imports, an energy tax could be expected to raise the value of the dollar relative to other currencies. This would put downward pressure on U.S. prices. Also, reduced dependence on oil imports would reduce the severe macroeconomic costs associated with disruptions of oil supply.

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Senator WALLOP. The subcommittee will come to order with my apologies for being 7 minutes late. It takes too long to get a haircut around here.

Senator LONG. Senator, I think something has to be done about this haircut situation. I, for one, would be willing to pay double price if I could just get a haircut at some point. [Laughter.]

Senator WALLOP. The most expensive ones I ever had were the ones around here when I first got here—they were free. [Laughter.]

It took a year and a half of growing, and then a real job to get it back to where it looked like a head.

Let me start this afternoon's hearing by thanking all of you who have come to testify before the subcommittee on such short notice. All of us would agree, I am sure, that there are few issues which cause Senators to sharpen their swords for battle like the prospect of energy taxes. It's understandable and all the more reason for having this hearing today.

In less than a week, it may very well be that the Finance Committee will be meeting in this room going through the tortuous exercise of putting together a revenue package to take to the floor of the Senate. But before that process begins, I felt it was of the utmost importance that we have the advantage of the information and counsel that will be offered here today on the impact of raising new revenue through the imposition of any one or a combination of the various energy tax alternatives which have been mentioned as possible components of a revenue raising package.

The thought of raising revenue now is one that I am not comfortable with. And I doubt that many members of this committee are. But after we have done what we can with regards to taxpayer compliance and closing of loopholes, some very difficult choices are going to have to be made by all of us as to how we achieve the revenue mandate imposed on us by the budget resolution. For sure, I am not willing to go back and tell the citizens of Wyoming or the people of this country anywhere that Congress is going to take away their tax cut because they would never miss what they didn't get. That's a piece of Indian giving that I thought maybe went out when Indian giving went out of style. But that appears to be the attitude of some.

And by the same token, I am unwilling to vote for other tax proposals, such as the alternative minimum tax, where the impacts beyond the cost in dollars can only be characterized by those who have looked at it as devastating. Not long ago I asked that an economic study be done on the impact of the minimum tax proposal on Wyoming. And it was the conclusion of that report that not only would the minimum tax proposal result in a significant reduction in drilling activity in Wyoming but that it would put in excess of 30,000 Wyoming workers out of a job. And while there may be some room for dispute regarding the economic assumptions used in that study, the message of them is absolutely clear. That type of tax is devastating to Wyoming and ultimately to the rest of the country which must depend on our State and others like it for a substantial amount of its energy needs.

I do not mean to compare the alternative minimum tax to the energy tax alternatives we are going to discuss here today. But if any of these energy tax proposals would have similar effects, then it is important that the Congress be aware of the gravity of the impact on supplies, on production, on industry, and ultimately on the consumer.

Several alternatives have been mentioned as possible ways of raising revenue through energy taxes. This does not mean that any one or a combination of these will finally be enacted by the Congress. Let me stress that it is not my purpose in holding this hearing today to offer you a menu and ask you to pick one. Rather, I would hope that you will advise us as to the current state of energy production and supply, and what consequences you would anticipate with the imposition of one or more of the energy tax alternatives. Keep in mind that your judgment must be not only fair, it must be perceived as fair and that your purpose in testifying is that your industry does your fair share.

But in conclusion, I would reaffirm the position that I have stated before with regard to what must be done by the Finance Committee in the coming days. Clearly, it must be our first priority to continue making significant reductions in rate of growth of Government spending. And, indeed, my position is not to vote to raise any additional revenues until those commitments have been made. Quite simply, we must raise revenue to reduce the deficit and get this Congress on the road to fiscal responsibility. But we must not raise revenues to buy the fertilizers for the pastures of the sacred cows. Elections cost enough without buying them through Federal tax money.

Senator Boren, do you have a statement?

Senator BOREN. Thank you very much. Mr. Chairman, I want to commend you for holding these hearings and appreciate the appearance of those who will be testifying today. I am sorry that I am not going to be able to be with you for the full hearing. We have a markup today in the Agriculture Committee starting again at 2:30 on the food stamp bill. Hopefully, we will be undertaking some of that to restrain in spending as you mentioned in your opening statement.

But I think it is certainly opportune to have these hearings at this particular time as Congress struggles to pass the first budget resolution with hearings scheduled before our full committee to-

morrow to discuss the full range of budget problems, and the impending markup of a tax bill by the full committee within the next few weeks.

Clearly, there is no more urgent problem facing the country than the need to end the current stalemate and proceed with a budget that will enhance the economic recovery of our country. Such a budget will necessarily hinge upon reducing the huge deficits which are now projected for fiscal year 1983 and the outyears, deficits that could add as much as $400 billion to the national debt by 1985 even under the resolution passed by the Senate.

If we do not achieve this goal, the uncertainty created by that failure and the insecurity that will grow from it will not only prevent any meaningful recovery from occurring, but will be the final push plunging the Nation into a very severe economic situation.

In the face of all this, it is certainly proper for the subcommittee to be considering the full range of proposals affecting the energy field which may be employed by those charged with the duty of increasing revenues. I notice from the announcement of this hearing that you will be considering increases in several different possible energy taxes.

Given the importance of these discussions, I want today to sound a note of caution as you have sounded, Mr. Chairman, in your opening remarks. Not only because of the new energy taxes which are being contemplated, but equally important because of the need to guard against slipping back into our old shortsighted ways of wasteful consumption and our dependence on foreign sources of energy. Make no mistake about it, we will be tempted to do just that as we look at possible alternative ways of raising revenues.

Just a few short years ago all of us recall that we faced the need to establish a national energy policy. Prices were increasing at an explosive level, putting tremendous upward pressure on inflation. Wasteful consumption and disincentives for domestic production contributed to such a high level of demand that fully half of our crude oil needs were being met by imports and the bulk of those imports were coming from perhaps the most unstable region of the world.

Certainly, the current fighting going on in Lebanon, as we meet today, should remind us of the extremely fragile nature and explosive potential of the Middle East. I cannot conceive of anyone knowingly choosing to return us to the days when our national security would rest on the importation of such a high percentage of oil from that part of the world.

Since those days, partly because of a slowdown in the American economy and economies of other countries, the demand for petroleum has been reduced. Prices have fallen and the dominant international sense is of a glut in the oil market. In the last 2 years, import levels have dropped to about one-fourth of our daily consumption. It is very difficult for us to remember the dire predictions delivered so recently that our dependence on Saudi Arabian imported oil would make the Saudis dominant well into the next century.

While I welcome our reduced dependence on imports, I recognize that they carry with them the very real danger that we will fail to recognize the temporary nature of the oil glut and be encouraged

to go back to our old wasteful ways or take punitive action against the domestic industry.

Indeed, it was just last October that an attempt was made to repeal many of the achievements contained in the Economic Recovery Tax Act of 1981. You will recall, Mr. Chairman, that you and I in the company of many of our colleagues were able to provide relief for royalty owners, for production of new oil, for stripper well production, and for marginal wells. The chairman of the full committee and the ranking minority member here today were very active in that effort. These actions will encourage increased production of oil by as much as three-quarters of a million barrels per day under normal economic conditions.

Fortunately, we were able to turn aside last year's effort to rescind these gains. But I am certain that the battle is not over, and I can easily see that in the current scramble to solve budgetary difficulties, the temptation will again arise to seek out the energy industry as a method of easing the pain of needed budgeting decisions. It always seems that it is easier for those in States where there is very little energy production to tax someone else's constituents rather than your own. That is still true and it will ever be so. It is also a very shortsighted way to solve the near-term budgetary problems.

I want to just mention very briefly one or two of the initiatives that have been talked about. And to also point out the fact that we are now facing a very critical situation in the domestic industry. The domestic industry is struggling even with the assistance that we were able to provide last year. Reduction in oil prices and uncertainty about the future have caused a sharp decline in domestic exploration and development.

For example, Mobile Oil Co., which had forecast a $5.9 billion 1982 budget has now reduced that figure to just over $4 billion, a reduction of almost $2 billion. That production cut back and others have had effects in the secondary industry. ARMCO Corp. recently announced that it would defer a $671 million expansion of its facilities that produce pipes for the oil and gas drilling industry. The number of oil rigs being stacked increases with each week. The peak of activity, measured by the national rig count, came last December when over 4,500 rigs were active. In less than 4 months, we have seen a decline of over 22 percent, over 1,000 drilling rigs in this country in just that very short period of time.

In addition, the development of alternate energy sources has come to a sudden and devastating halt. Tenaco and Occidental Petroleum have halted their plan to extract kerogen from Colorado shale deposits, and the Exxon Corp. has announced it will halt, at least temporarily, their plans to turn East Texas lignite into natural gas. On top of these developments, the price decline seems to have weakened developments and efforts to develop solar, geothermal, and other alternative energy sources.

One of the most onerous proposals being put forth at the present time is the so-called corporate minimum tax under which one of the preference items listed would be the intangible drilling cost production. You have mentioned this in your opening statement. In combination with the accelerated cost recovery system of depreciation, this proposed tax would make investments in oil and gas

drilling much less advantageous than other kinds of investments. We would once again be reducing our ability to maintain sufficient domestic production, and we would correspondingly increase our dependence on imported crude with all of its attendant problems.

To bring this proposal into better perspective, and you have mentioned the impact that it would have on Wyoming, let me share with you a study done in Oklahoma City by an organization, the Resources, Analysis and Management Group. This organization is headed by Dr. William Talley, who has long experience in the energy field. He served as a member of my Council of Energy Advisors during my term as Governor of Oklahoma. He has often been a witness before this committee. Studies made by him have been introduced into our record many times.

In Oklahoma alone, RAM estimates a reduction in drilling expenditures of $760 million per year if this tax is adopted, including a reduction of wells drilled of 1,636, and an annual reduction of 8 million feet in drilling. It is estimated that it would reduce crude oil production in Oklahoma by 23,400 barrels of crude oil per day and 233 million cubic feet of gas.

Applying the multiplier effect, RAM estimates that the gross State product could be reduced by as much as $2.6 billion, and that with a ratio of 50 jobs per $1 million in GNP, a reduction of 132,400 jobs would result.

Since about 20 percent of the current nationwide drilling activity occurs in Oklahoma, the potential national impact of this tax proposal can be obtained by multiplying Oklahoma figures by five. Drilling expenditures nationally can be expected to drop by $3.8 billion with a resulting loss in jobs in excess of 500,000 nationally, and much larger drops in the gross national product.

In addition, it is estimated that outside investment accounts for 20 percent of total drilling investments. That amount would be cut by 50 percent under the minimum tax proposal. This means that approximately 60 percent of the expenditures for oil and gas drilling in Oklahoma would be taxed. Independent producers could not reduce their rate of tax for the use of foreign tax credit because they are domestic producers.

We would once again, therefore, be placing the greatest burden on domestic production and encouraging the marginal barrel to be produced overseas.

I am pragmatic enough to realize the current situation may well call for additional revenues from the energy sector. If that becomes a reality, it seems to be far preferable that we consider additional burdens on foreign produced oil rather than on domestic production. And that if we have to look at consumption taxes that we should look at those that do not single out oil and gas as the single source of energy but are broad based and across the board.

However, I would say that any broad based consumer taxes, such as gasoline tax or a Btu tax, must be carefully considered to make sure that they do not have unfair regional impacts. The far flung geography of some States, certainly like Wyoming, Oklahoma and others, and the nature of basic industries of those States, such as agriculture, causes them to be more energy intensive. Those areas would bear a heavier proportional share of energy taxes.

In closing, let me say again that I fully recognize the urgency of our budgetary crisis. And I am sure that the energy industry is willing to shoulder its fair share of the burden of solving that crisis. But in reaching a solution to this near term problem, we must guard against punitive action that will have a long range effect that would be greatly adverse to our national economic health and security. Whatever is done in the energy field must be very cautiously approached. And I say that not from a narrow parochial point of view—and I know the chairman does not approach it from that point of view either. We must approach it from the point of view of national security, the provision for adequate domestic supplies of energy, so that we will not impede in the long run the economic recovery that we hope our country will have.

[The prepared statement of Senator Boren follows:]

Thursday, June 9, 1982

STATEMENT BY U. S. SENATOR DAVID BOREN, D-OKLAHOMA

BEFORE THE FINANCE COMMITTEE'S SUBCOMMITTEE ON ENERGY

Mr. Chairman. First of all, I would like to commend you and the Members of your Subcommittee for holding this hearing today. It comes at a particularly opportune moment in light of the current attempts by the Congress to pass a First Budget Resolution, the scheduled hearing by the full Committee tomorrow to discuss the full range of budget problems, and the impending mark-up of a tax bill by the full Committee within the next few weeks.

Certainly there is no more urgent problem facing the country than the need to end the current stalemate and proceed with a budget that will enhance the economic recovery of the Nation. Such a budget will necessarily hinge upon reducing the huge deficits which are now projected for Fiscal Year 1983, and the outyears---deficits that could add $400 billion to the national debt by 1985.

If we do not achieve the goal, Mr. Chairman, the uncertainty created by that failure and the insecurity which will also grow from it will not only prevent any meaningful recovery from occurring, but will be the final push plunging the nation into an economic depression equal to or worse than the Great Depression of the 1930's.

In the face of all of this, it is quite proper for this Subcommittee to be considering the full range of proposals affecting the energy field that may be employed by those charged with the duty of increasing revenues. I notice from the announcement of this hearing that you will be considering increases in several different possible energy taxes.

Given the importance of these discussions, I want today to sound a note of caution in your deliberations, not only because of the new energy taxes which are being contemplated, but equally important because of the need to guard against slipping back into our old short-sighted ways of wasteful consumption and our dependence on foreign sources of energy. Make no mistake about it, we will be tempted to do just that.

Let me review for a moment the situation that we faced in the energy field just two short years ago. You will recall, Mr. Chairman, that the need to establish a national energy policy was dominant in the Congress at that time. Prices were increasing at an explosive level putting tremendous upward pressure on inflation. Wasteful consumption and disincentives for domestic production contributed to such a high level of demand that fully half of our crude oil needs were being met by imports and the bulk of those imports were coming from perhaps the most unstable region of the world. Certainly the current fighting going on in Lebanon, while somewhat removed from the oil fields of Saudi Arabia, nonetheless remind us of the extremely fragile nature and explosive potential of the Middle East. I cannot conceive of anyone knowingly choosing to return us to the days when our national security would rest on the importation of such a high percentage of oil from that part of the world.

Since those days, partly because of the slow-down in the American economy and in the economies of other countries, the demand for petroleum has been reduced, prices have fallen and the dominant international sense is of a glut in the oil market. In the last two years, import levels have dropped to about 1/4 of our daily consumption. It is very difficult for us to remember the dire

predictions delivered so recently that our dependence on Saudi Arabian imported oil would make the Saudis dominant well into the next century.

While I welcome our reduced dependence on imports, I recognize that they carry with them the very real danger that we will fail to recognize the temporary nature of the oil glut and be encouraged to go back to our old wasteful ways and to take punitive action against our domestic industry, thereby reducing their capabilities to explore and produce.

Indeed, it was just last October that an attempt was made to repeal many of the achievements contained in the Economic Recovery Tax Act of 1981. You will recall, Mr. Chairman, that you and I in the company of many of our colleagues were able to provide relief for royalty owners, for production of new oil, for stripper well production, and for marginal wells. These actions will encourage increased production of oil by as much as 3/4 million barrels per day under normal conditions.

Fortunately, we were able to turn aside last year's effort to rescind these gains. However, I am certain that that battle is not over and I can easily see that in the current scramble to solve budgetary difficulties the temptation will again arise to seek out the energy industry as a method of easing the pain of needed budgetary decisions. I have said many times that one of the reasons for these repeated raids on the energy industry is that the producing states are fewer and it is far easier to tax someone else's constituents, rather than your own. That is still true and will ever be so.

It is also a very short-sighted way to solve near-term budgetary difficulties.

It would be a mistake, in fact I would say it would be a very grave mistake, to turn back the clock and renew as we surely would, the difficulties we faced two years ago.

As we now consider new initiatives in energy taxation, it would be well to take a short look at the conditions of the domestic oil and gas industry. Even with the assistance we were able to provide last year, the domestic industry is struggling. Reductions in oil prices and uncertainty about the future have caused a sharp decline in domestic exploration and development. The Chairman is fully aware of such recent actions as the cut-back in this area by the Mobil Oil Company, which had forecast a $5.9 billion 1982 budget, but which has in fact reduced that figure to just over $4 billion.

That production cut-back and others have had effects in the secondary industry also. Recently Armco Corporation announced it would defer a $671 million expansion of its facilities that produce pipe for the oil and gas drilling industry. The Chairman is also aware that the number of oil rigs being stacked increases with each passing week. The peak of activity measured by the national rig count came last December when over 4500 rigs were active. In less than four months, we have seen the decline of over 22 per cent in that number.

In addition, the development of alternative energy sources has come to a sudden and devastating halt. Teneco and Occidental Petroleum have halted their plan to extract kerogen from Colorado shale deposits and the Exxon Corporation has announced that it will halt, at least temporarily,

their plans to turn East Texas lignite into natural gas. On top of these developments, the oil price decline seemed to have weakened development efforts in solar, geo-thermal, and other alternative energy sources.

It seems almost incredible to believe, in the face of all of the developments I have referred to this afternoon, that we are meeting again to consider again additional ways to tax this industry.

One of the most onerous proposals being put forward is the Administration's so-called corporate minimum tax. The proposal would allow the figuring of tax liability in the current manner and require an additional computation that would reduce the tax advantage gained by the use of 14 preference items, including intangible drilling costs. The tax would then be 15 per cent of the total. No tax credits would be allowed against the new tax. Oil and gas income offsets or deductions for net operating losses would not be allowed.

In combination with the accelerated cost recovery system of depreciation, this proposed tax would make investments in oil and gas drilling much less advantageous than other kinds of investments. We would once again be reducing our ability to maintain sufficient domestic production, and we would correspondingly increase our dependence on imported crude with all of its attendant problems.

To bring this proposal into better perspective, let me share with you a study done in Oklahoma City by an organization, the Resources, Analysis and Management Group. This organization is headed by Dr. William Talley, who has long experience in the energy field and served as a member of my Council of

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Energy Advisers during my term as Governor of Oklahoma.

In Oklahoma alone, RAM estimates a reduction in drilling expenditures of $760 million per year if the tax is adopted, including a reduction of wells drilled of 1,636 and an annual reduction of 8 million feet in drilling.

It is estimated that it would reduce crude oil production in Oklahoma by 23,400 barrels of crude oil per day and 233 million cubic feet of gas.

Applying the multiplier factor, RAM estimates that the gross State product could be reduced by as much as $2.6 billion and that with a ratio of 50 jobs per $1 million in GNP, a reduction of 132,400 jobs would result.

Since about 20 per cent of the current nationwide drilling activity occurs in Oklahoma, the potential national impact of this tax proposal can be obtained by multiplying the Oklahoma figures by five. Drilling expenditures nationally could be expected to drop by $3.8 billion with the resulting loss in jobs in excess of 500,000 nationally and much larger drops in the GNP.

In addition, it is estimated that outside investments account for 20 per cent of total drilling investments. That amount would be cut by 50 per cent under the minimum tax proposal. That means that approximately 60 per cent of the expenditures for oil and gas drilling in Oklahoma would be taxed. Independent producers could not reduce their rate of tax through the use of foreign tax credits. We would once again, therefore, be placing the greatest burden on domestic production and encouraging the marginal barrel to be produced overseas.

Mr. Chairman, I would say that further energy taxes are probably unwise. However, I am pragmatic enough to realize that the current situation may well call for additional revenues from the energy sector. If that becomes a reality, it makes far more sense to me to consider such items as an import fee on foreign crude oil as a lesser evil than some of the other proposals set forth. I realize that such an eventuality would create problems in terms of fairness to refiners and in protection against a host of imported refined product. But it would have the virtue of not placing the greatest burden on domestic production and it would, to some degree, stabilize domestic prices and encourage conservation here at home.

In addition, any broad-based consumer taxes such as a gasoline tax or a BTU tax must be carefully considered to make sure that they do not have unfair regional impact. The far flung geography of some states and the nature of basic industries of some states, like agriculture, cause them to be more energy intensive. Those areas would, therefore, bear a heavier proportional share of energy taxes.

In closing, let me say again that I fully recognize the urgency of our budgetary crisis and I am sure that the energy industry is willing to shoulder its fair share of the burden of solving that crisis. But in reaching a solution to this near-term problem, we must guard against punitive acton that will have long-term effects which would be greatly adverse to our national health and security. Whatever is done in the energy field must be cautiously approached and completely thought through to be sure our actions are in the best interests of all Americans.

Senator WALLOP. Thank you very much, Senator. I agree with your statement and hope that that is what we get out of the thing.

Senator Long, did you have a statement?

Senator LONG. Thank you, Mr. Chairman. As you so well know, the policies that this government has pursued since 15 years before the Arab oil boycott have been calculated to make this Nation more and more dependent on foreign oil and less and less capable of producing its own supply of energy. These policies have been made in the Congress and in the executive branch, and have included trade as well as tax and regulatory policies.

When the Arab boycott hit in 1973, we should have been encouraging production and discouraging consumption until our national security was protected. Instead, the Congress did just the opposite. The legislation that was passed penalized production and encouraged consumption by holding down energy prices and by putting both taxes and excessive regulations on energy producers. I think that a good starting point in addressing our energy situation would be to reverse everything that has been done since 1973 in terms of tax and regulatory policies. Mr. Chairman, I don't think you are going to find anybody at this table nor anyone on the first two panels of witnesses who are going to disagree with that proposition. Mr. Chairman, I supported the windfall profits tax for only one reason: It was better than the alternative, which was to continue to subsidize consumption and discourage production through price controls. I have said since that point that I would be pleased to support any effort to repeal the windfall profits tax. However, our budgetary situation is such that if we do, we are going to have to raise revenues to offset the repeal. Any new revenues in the energy area will, I believe, have to be raised by a tax on consumption.

There is no reason that energy can't bear its share of the taxes. It just shouldn't be done in a way that is going to discourage production and encourage consumption. Right now, on balance, it looks like we are subsidizing consumption to the tune of $80 billion a year at the consumer level, particularly in the natural gas area. In view of the fact that we are hard put to meet our energy requirements, that doesn't make too much sense.

Senator WALLOP. It sure doesn't.

Senator LONG. Thank you.

Senator WALLOP. Thank you very much. Senator Bentsen.

Senator BENTSEN. Yes, if I might, I would like to comment, Mr. Chairman, on the fact that we seem to have a temporary surplus of oil. But it is not going to last very long. Anyone who thinks otherwise is making a serious mistake. So, in our considerations as to where taxes should be imposed here, I agree with the Senator from Louisiana. In no way should we be doing those things that are going to make it more difficult to produce oil domestically.

You have got approximately 1,300 rigs idle in the country now. That is about 35 percent of the rigs. The most precipitous drop that we have had in the history of the petroleum industry is in cutting back on the utilization of drilling rigs. Talk at that time about trying to cut out the IDC's, intangible drilling costs, didn't make much sense. Now that's over 40 percent of the cost of drilling a well. If you put in the dry holes, you are well over 60 percent.

The way one finances wells is not with long-term money from banks and insurance companies. They are financed out of cash flow. I am deeply concerned about any effort to try to cut back on the intangible drilling costs. We have got a situation where 5 years ago we were importing about 46 percent of the oil in this country. And today, we are importing approximately 30 percent. That is a major step in the right direction. To do something that would make it more difficult when you know the independent is putting about 105 percent of what he gets from the wellhead back into further exploration—now if we see a proposal go through this committee and the Congress that, in effect, knocks out the cash flow for the drilling, you are going to see a further curtailment of drilling in this country. I think that would be a very serious mistake.

I think that the Senator from Louisiana has made a very valid point about as we consider the sources of further income to try to cut back this deficit. Let's not enter into something that would be a very negative energy policy for this country.

Thank you very much.

Senator WALLOP. Thank you very much, Senator. I agree with your statement and appreciate your coming here.

The first witness is the Senator from Oklahoma who shares a common interest with the senior Senator from Oklahoma, especially in this area. Welcome, Senator Nickles.

STATEMENT OF HON. DON NICKLES, U.S. SENATOR FROM THE STATE OF OKLAHOMA

Senator NICKLES. Thank you, Senator Wallop. I would commend you and the fellow members of this committee for your opening remarks. I was very pleased. And I realized that in part my remarks would be somewhat like preaching to the choir. I also commend you for holding this hearing because I think from all the rumblings that we have heard that, yes, there are a lot of proposals. People seem to think that we can balance the budget on the backs of a few energy producing States or we can have an oil tax, and that is not as bad as any other tax. I think that is a misconception; one that is very faulty in economic thinking. It also has become one that has some very severe and negative repercussions to the energy producing States but also to the consumers of America.

When you just mentioned the discussion of various energy tax revenue raising options, it is enough to send very severe shock waves throughout the State of Oklahoma. The OPEC oil ministers, who recently met to discuss their situation, talked optimistically of regaining their dominance in the world energy markets. They are publicly enthusiastic because they are predicting an end to the world oil glut. I wouldn't be at all surprised that the OPEC oil barons are privately laughing at Congress. Congress is the real threat to America's energy independence.

During the last decade, Congress has enacted legislation which, in effect, does nothing but subsidize OPEC by encouraging America's oil producers to buy foreign products rather than to produce at home. It has not only been a wrong approach, but it has also been very damaging to our energy self-sufficiency. There probably would never have been an Arab oil embargo had Congress had the

wisdom to encourage domestic production through the free market system instead of stifling production with excessive production and allocation control.

Mr. Chairman, as we face a very large deficit, I continue to hear rumblings throughout Congress to again attack the oil and energy industry to make up the difference. Such a move, in addition to being short-sighted, would again place this Nation at the mercy of OPEC. I am totally opposed to any additional tax on the oil industry. The industry already pays more tax than any other industry. What other single industry paid $23 billion over and above regular income taxes last year?

By the end of this year, it is estimated that the oil industry alone will have paid $51.3 billion in windfall profits tax since February 29, 1980. Last year, the windfall profits tax totaled $23.2 billion. This year Treasury estimates that it is going to be $22.1 billion. No single other industry pays more of a "fair share" than the energy and oil and gas industry.

In comparing the tax liability of the industry as a whole to other industries, the American Petroleum Institute and the Federal Trade Commission surveys show that oil companies pay about 57 percent in Federal taxes as a percentage of income before tax. This compares to an average of 38 percent for all other industries.

The windfall profits tax was not only an unfair and punitive imposition, but it has been a contributing factor for OPEC's dominance. What is the sensibility of placing a heavy domestic tax on domestic production when not taxing imports? Mr. Chairman, if you increase taxes on domestic production, you are going to have less domestic production. In effect, when we don't tax the imports and you do place a very punitive tax on domestic production, we are severely curtailing domestic production at the expense of indirectly subsidizing the imports. So increasing our dependence on imports is what our policy has been. And as the Senator from Louisiana mentioned so well, I think that policy needs to be changed.

Congress big spenders quickly realized a few years ago that they would have little trouble, if any, politically draining a small number of oil producing States of billions of dollars to fund their social projects. They failed to realize the counterproductive effect of these policies would have. So today we are stuck with the windfall profits tax which is no more than an excise tax on American energy producers, which gives OPEC economic and political advantages.

An equitable energy tax would not penalize a single industry, nor only the domestic side of that industry. A fair tax. Mr. Chairman, in my opinion, we shouldn't be singling out particular industries and saying, yes, we will place this tax to raise $20 billion to see if we can't balance the budget on one particular industry. But if we have to have a tax, a fair tax would be one that would be equally distributed on all energy sources across the board, both domestic and foreign. Such a tax might awaken those in Congress who have this naive belief that taxing commodities doesn't increase prices nor discourage production nor increase inflation.

Whether Congress would have the foresight to see the future benefits of such an action is doubtful. So, if the majority of taxes continue to be forced from the oil industry, let us at least consider

repealing the windfall profits tax and place the burden equally on domestic oil as well as on foreign oil. We must stop subsidizing OPEC at the cost of domestic production.

Based on Treasury Department estimates, approximately $22 billion is to be collected in windfall profits tax this year. Eliminating that tax would increase corporate and individual taxes because the deduction would no longer be taken from the windfall profits tax. The amount of revenue lost from the Treasury, using 1982 as an example, would be about $8.9 billion. Revenue lost by repealing the windfall profits tax could be replaced by revenues from across-the-board excise taxes placed equally on domestic oil as well as on foreign oil and petroleum products.

Assuming that total domestic crude production for 1982 is 3.2 billion barrels and imported oil and oil products is 1.5 billion, for a total of about 4.7 billion barrels, the excise tax would only have to be about $1.90 to replace the lost revenue. This may be somewhat of a conservative estimate. It is far less than the current windfall profits tax per barrel, which ranges now from about $3.50 in tier 3 to $12.50 in tier 1, depending, of course, on market value and base price.

At least this method would reduce the counterproductive tax burden on domestic production while decreasing the incentives for buying foreign oil. It would also eliminate, Mr. Chairman, as I am sure you are aware, the mountains and mountains of paperwork that are now caused by the very punitive windfall profits tax.

I was in a small producer's office. This wasn't a big oil company. He showed me a an unusually large stack of paper that had been on his desk that had accumulated basically in a 9-month period all dealing with compliance of the windfall profits tax. This illustrates an unbelievably large administrative burden on the small independent producers that we have in this country.

It is estimated that my State of Oklahoma shelled out over $2 billion in windfall profits tax alone last year. That's money that could have been used to ultimately bring down the cost of production or money that could have been used to fund additional production. It also could have been passed onto the consumer in the form of lower energy prices.

There is no doubt, if someone looks fair and objectively, that the oil industries pay their fair share of taxes. However, as gross revenues have increased, the industry has become increasingly vulnerable to additional taxation. Such action by this Congress might have the desired effect of helping to reduce the deficit or fund other social projects, but at what price to America's energy self-sufficiency? What Americans are willing to line up at long gas lines? Who wants to explain to the American people that it was Congress that killed our own ability to produce gasoline and other petroleum products and increased our reliance on OPEC?

Already, another proposal under consideration—not being discussed by this subcommittee today—has sent very serious shock waves throughout the oil industry. The topic is intangible drilling costs, known as IDC's. The proposal to include IDC's as a tax preference item for the purpose of computing the corporate minimum tax is just another stab into the heart of the country's energy problems. This suggestion would impact most heavily on newer and

more aggressive companies actively engaged in the development of new oil and gas.

Mr. Chairman, if we talk about a 15-percent surcharge on IDC's, which represents 70 percent of the cost of drilling a well and is out of pocket operating cost. You don't put taxes, a surcharge, on an out of pocket operating expense. We have a minimum tax for individuals but they are allowed to have an income offset. In other words, if they are really in the oil/gas business, and not looking for a tax dodge, then they are allowed this offset. The proposal, as it now states, the only offset that would be allowed would be for foreign tax credits. In other words, your major international oil companies would compute relatively little corporate minimum tax and could avoid this preference tax on IDC's. Only the domestic producers would share the brunt of this tax so we would have the same philosophy that we found with the windfall profits tax. We would be increasing our dependence on OPEC for foreign oil because they would have a competitive advantage versus domestic production. Domestic production would have the 15-percent surcharge on IDC's, but not OPEC, not foreign oil. The major companies would be allowed the foreign tax offset and could escape the corporate minimum tax liability.

So, again, we would be increasing our dependence on foreign oil. That certainly would be, in my opinion, a very, very unwise mistake.

Recent declining oil prices, as alluded to earlier, plus uncertainty in the industry over the tax policies of Congress are the primary causes for the bottoming out of the number of rotary rigs in operation nationwide this year. At the beginning of this year, the monthly average of operating rigs was 4,436. During the first week in June, that monthly average had dropped to 2,931—a 34-percent drop in 6 months.

Had the corporate minimum tax proposal been in effect since 1980, both domestic production and the reserve additions would have declined even more. This would have meant greater importation of foreign oil and there would be likely no oil glut today. In 1980, for the first time in 14 years, new reserves have actually been added and equalled actual production for last year. That is a trend that we cannot afford to stop.

I can sympathize with this subcommittee's task and the Finance Committee's task in trying to find additional revenue. The deficit is too large. But the way to reduce the size of the deficit and to balance the budget is not by saddling any particular industry, particularly the oil industry which is already paying more than its fair share, and say "we will balance the budget on your backs."

The answer, as the chairman is well aware and what I have been preaching for some time in Congress, is to cut Federal spending, an issue I think we all share common ground on. I'm just hopeful that maybe this committee and hopefully this Congress and this Senate

will show some commonsense to fight these absurd types of proposals that have been discussed. We should try and return to a commonsense one that has a little more fairness, a little more equity, and doesn't try and single out and penalize any particular industry too much, certainly as the windfall profits tax has in the past.

Thank you, Mr. Chairman.

Senator WALLOP. Thank you, Senator Nickles.

[The prepared statement of Senator Nickles follows:]

U.S. SENATOR

DON NICKLES

FROM OKLAHOMA

FOR IMMEDIATE RELEASE
June 9, 1982

CONTACT: Paul Lee
202-224-6011

OPENING STATEMENT ON ENERGY TAX PROPOSALS

Mr. Chairman, and members of this subcommittee, I thank you for the opportunity to appear before you today. The subject of this hearing is of significant importance to me and my state. Just the mention of discussing various energy-tax revenue-raising options is enough to send shockwaves through the State of Oklahoma.

OPEC oil ministers, who recently met to discuss their situation, talked optimistically of regaining their dominence in the world energy market. They are enthusiastic, publically, because they are predicting an end to the world oil glut. But I wouldn't be at all surprised if the OPEC oil barons are, privately, laughing at this Congress. This Congress is the real threat to America's energy independence.

During the last decade, Congress has enacted legislation which, in effect, does nothing but subsidize OPEC by encouraging America's oil producers to buy foreign products rather than produce at home. It has been not only the wrong approach, but also a damaging cause to our energy self-sufficiency.

There would have probably never been an Arab oil embargo had Congress had the wisdom to encourage domestic production instead of stifiling it.

Mr. Chairman, as we face a deficit larger than ever before, I hear the rumblings in Congress to again attack the oil industry to make up the difference. Such a move, in addition to being short-sighted, would again place this nation at the mercy of OPEC.

I am opposed to any additional tax on the oil industry. The industry already pays more tax than any other. What other single industry paid $23 billion over and above regular income tax last year? By the end of this year, it's estimated

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that the oil industry alone will have paid $51,352,000,000.00 in windfall profits taxes since February 29, 1980. No single other industry pays more of a 'fair' share. In comparing the tax liability of the industry as a whole to other industries, American Petroleum Institute and Federal Trade Commission surveys show oil companies pay about 57 percent in federal taxes as a percentage of income before tax. This compares to an average of 38 percent for all other industries.

The windfall profits tax was not only an unfair and punitive imposition, but it has been a contributing factor for OPEC's dominence. What is the sensibility in heavily taxing domestic petroleum while OPEC oil flows freely into this country?

But Congress' big spenders quickly realized a few years ago that they would have little trouble, politically, draining the small number of big oil producing states of billions of dollars to fund their social projects. They failed to realize the counterproductive effect those policies would have. So, today, we are stuck with a windfall profits tax, which is no more than an excise tax on American energy producers--giving OPEC the economic and political advantage.

An equitable energy tax would not penalize a single industry nor only the domestic side of that industry. A fair tax would be one equally distributed on all energy sources, across-the-board, both domestic and foreign. Such a tax might awaken those in Congress who seem to believe that taxing commodities won't raise prices and discourage production.

Whether Congress would have the foresight to see the future benefits of such an action is doubtful. So, if the majority of taxes continue to be forced from the oil industry, let us at least consider repealing the windfall profits tax and place the burden equally on domestic oil currently taxed and all foreign oil. We must stop subsidizing OPEC.

Based on Treasury Department estimates, approximately $22 billion is to be

collected in windfall profits taxes this year. Eliminating that tax would increase corporate and personal taxes because the deduction would no longer be taken from the windfall profits tax. The amount of revenue lost from Treasury, using 1982 as an example, would be about $8.9 billion. Revenue lost by repealing the windfall profits tax could be replaced by revenues from an excise tax placed equally on domestic and foreign oil and petroleum products. Assuming that total domestic crude production for 1982 is 3.2 billion barrels, and imported oil and oil products is 1.5 billion--for a total of 4.7 billion barrels--the excise tax would need to be only about $1.90 per barrel...which may be somewhat of a conservative estimate. This is far less than the current windfall profits tax per barrel, which ranges now from about $3.50 in tier 3 to $12.50 in tier 1--depending, of course, upon market value and base price.

At least this method would reduce the counterproductive tax burden on domestic production while decreasing the incentives for buying foreign oil.

It is estimated that my State of Oklahoma shelled out about $2 billion last year in windfall profits taxes...that's money that could have been used to ultimately bring down the cost of petroleum products to the consumer.

There is no doubt the oil industry pays a fair share of taxes. However, as gross revenues have increased, the industry has become increasingly vulnerable to additional taxation--such action by this Congress might have the desired effect of helping to reduce the deficit or fund other social projects, but at what price to America's self-sufficiency. What Americans are willing to line up again at mile-long gasoline lines? Who wants to explain to the American people that it was Congress that killed our own ability to produce gasoline and other petroleum products?

Already, another proposal--not being discussed by this subcommittee--but under Congressional consideration has sent serious shockwaves through the oil industry. The topic is Intangible Drilling Costs, known as IDCs.

The proposal to include IDCs as a tax preference item for purposes of computing the Corporate Minimum Tax is just another stab into the heart of the country's energy problems. This suggestion would impact most heavily on newer, and more aggressive companies actively engaged in development of new oil and gas reserves. Therein lies much of America's energy future, yet many in Congress are seeking to dissolve what little has been gained.

Recent declining oil prices, combined with the threat of this IDC proposal, are the primary causes for the bottoming out of the number of rotary rigs in operation nationwide this year. At the begining of the year, the monthly average of operating rigs was 4,436. During the first week in June that number was down to 2,931--a 34 percent drop!

Had the CMT proposal been in effect since 1980 both domestic production and reserve additions would have declined significantly. This would have meant greater importation of foreign oil, and there would likely have been no oil glut today. In 1980 for the first time in 14 years new reserves added--equalled actual production for that year. That is a trend we can ill afford to stop.

I can sympathize with this subcommittee's task, Mr. Chairman. The deficit is too large. But the way to reduce the size of the deficit and balance the budget is not by saddling the oil industry with taxes which will do far more harm than good. The answer is cutting federal spending--an issue I know the Chairman is well aware of where I stand.

Senator WALLOP. Senator Dole, did you have an opening statement?

Senator DOLE. No, I don't have a statement. I appreciate very much the statement of Senator Nickles. But I would say that we are going to have this responsibility in the next few days to start marking up a revenue bill. It is going to be rather substantial. I would be pleased to hear why the American Petroleum Institute doesn't support any budget resolution. I think the biggest problem we have in this country is getting spending down and getting deficits under control. But it is my understanding that the API doesn't want a budget. They are afraid they might have to pay some tax. And it will be interesting to hear their testimony. And if they are not for a budget, they ought to tell us they are not for a budget. If they are for a budget, they ought to tell us what budget it is.

I think we have got a big responsibility to meet. And it is incumbent on all of us, Republicans or Democrats, to try to bring deficits down and bring interest rates down. And just to try to stonewall anything we want to do or anything the President suggests, in my opinion, is not in the best interest of our economy or the oil industry. And I'm looking forward to their testimony.

Senator WALLOP. Senator Bradley.

Senator BRADLEY. Mr. Chairman, I would only say that I am also looking forward to what the chairman is looking forward to.

Senator DOLE. I'm not looking forward to marking up the bill. I don't want you to misunderstand me. [Laughter.]

Senator BRADLEY. It seems to me that the question this hearing is going to address is this: Among the taxes that we are required to raise with the budget resolution, should there be an energy tax? And if so, what kind of an energy tax? Should it be an oil import fee or an ad valorem tax or a refinery tax or a Btu tax or a gasoline tax or what? It seems to me that there are a couple of considerations we have to keep in mind.

On an energy policy level, I think you could make the argument that we need an oil import fee to correct for the national security premium that the price of oil does not reflect; particularly now when we face a time of great uncertainty in our supplies from the Persian Gulf in the midst of a war.

Our second consideration, I think, should be budget policy. How do we raise the revenue most efficiently?

And, third, economic policy. And I think that this is the one that we have to look at very carefully. What kind of tax should the next dollar of tax revenue come from? What kind of tax will have the most positive effect on our macroeconomic policy. If we have got to raise taxes $106 billion, there's a difference as to whether we take it out of energy or other excise taxes or corporate profits or individual income. And each of those affects the economy a different way. So I think that we want a wide range of considerations here. And in my own mind in looking at these three—budget policy, energy policy and macroeconomic policy—the one that is most important to me is macroeconomic policy because the rest kind of hinge on it. So I don't think we should even enter this discussion of energy taxes with the assumption that we will only tax consumers or producers or whatever. I think we have to keep in mind what kind of tax will do the least damage in a time of deepening recession.

Senator DOLE. Senator?

Senator WALLOP. Senator Dole.

Senator DOLE. I misspoke. It should have been IPAA, instead of API. I'm not certain where API is. If they are not supporting a budget then I will ask them that question. But I know what IPAA has done. They haven't done anything.

Senator WALLOP. Let me just say to Senator Bradley that my reach as the Subcommittee Chairman is the topics which my subcommittee can touch. And that thing on agricultural and energy taxation—I know of no proposals about the agricultural part. And if there were, I would very much be against them.

The topic of this is not to present a menu, as I said in my opening statement, to the industry from which to choose. The topic of the hearing is to try to determine the effect of various tax proposals on the production capability of the country to supply the consumer and a variety of other things. I know of no other way to get to that except to ask.

We will make the choices in the full committee. But it seems to me that the whole idea of this was to try to find some means by which we could make an informed judgment.

Senator BRADLEY. I would say to the chairman that I certainly think that the hearing has a purpose. And, indeed, among the things that we have to weigh in determining how we are going to raise over $100 billion in taxes in the next few years is how it affects energy production. But there are also other considerations.

Senator Symms, do you have a statement?

Senator SYMMS. Thank you, Mr. Chairman. I will just make a brief statement in view of looking at the time. I know Mr. Chairman wants to get on with the meeting. And in looking at my schedule, I am afraid I won't get back.

And I do want to do two things. I do want to ask unanimous consent to insert in the record a letter that I received in opposition to the imposition of an oil import fee from the American Automobile Association. I would like to have it put in at the proper time. I think it is supposed to follow Mr. Peter Koltnow's statement from the highway users federation. So if I could ask that consent, I would.

And then, Mr. Chairman, I would just like to make an observation. I think I was one that was very disappointed when I heard that the President had made a decision to not have in the consideration of any kind of revenue raisers the highway users fee with the money put into the interstate trust fund. And I would like to refer my colleagues to this. And I would ask unanimous consent that we put this into our record—an article on April 18 in the Washington Post by Mr. George Will where he talks about what you can tell about a society from the potholes that they leave in the roads.

[The article referred to follows:]

WHAT POTHOLES SAY ABOUT US

(By George F. Will)

In 1980, Republicans rebelled against the inequity of the 55 mph national speed limit and denounced it in their platform. Democrats laughed. Republicans swept the West, where folks don't take kindly to the feds slowing down a fella's pickup.

But today there are stretches of the Interstate Highway System where traffic creeps at 30 mph because of potholes and crumbling pavement. What is the Republican administration going to do about these and similar problems?

If Drew Lewis, tne secretary of transportation has his way, taxes will be raised. I mean, revenues will be enhanced. That is, costs will be recovered by, er, augmenting "user fees." Principally, Lewis wants a 4-cent increase in the federal tax on a gallon of gasoline.

Only the gallantry I learned at my father's knee keeps me from hooting when Republicans devise euphemisms to avoid saying "tax increases." But Lewis has a point about the gas tax being a user fee. He proposes raising $4 billion annually from the four-cent increase, and another $1 billion from other user fees, primarily on heavy trucks. About $1 billion would be dedicated to mass transit capital investments.

This last provision, although perhaps justifiable, muddies Lewis' argument. The lofty morality of user fees—what makes them noble, whereas tax increases are yucky—is that users of a service should pay for it. But, if so, mass-transit users should pay for mass transit with their fares. Lewis is nothing if not nimble, and he argues that highway users should pay with"user fees" some of the costs of the mass transit they do not use, because highway users will benefit from more adequate highway capacity when more folks are using mass transit.

Oh, well. Lewis is not only secretary of sophistry, he is also secretary of transportation. And the transportation system has problems that are more serious than Lewis' casuistry about user fees.

It has been well said that maintenance, as much as original construction, is a measure of a society's vitality. It also is a measure of maturity, of the willingness to make timely provision for the future. By this measure, America is increasingly deficient.

The Interstate Highway System is not yet completed, but 10 percent needs resurfacing immediately and almost half will need major repairs by 1995. Even a three-year deferral of repairs can triple the cost—not even counting inflation. In the next 15 years, 216,000 miles of other roads in rural areas will need at least resurfacing. (An Arizona county recently tore up 250 miles of paved roads and put down gravel because that was cheaper than repairing the potholes.)

The design life of a bridge is 50 years. Seventy-five percent of America's bridges are more than 45 years old. Forty percent are judged deficient. It would take $60 billion just to eliminate the backlog of needed bridge repairs.

It would take $6 billion just to replace transit buses that are more than 15 years old. New York City would need $110 billion over the next decade just to rehabilitate its transit system. It also must resurface much of its 6,000 miles of streets (and must repair most of its 2,400 miles of water system and 6,100 miles of sewer system).

Gasoline cost 31 cents a gallon in 1959, when the tax was last raised (to 4 cents). The price of gasoline has quadrupled, highway construction costs have risen 300 percent, and the four cents are worth less than one cent. A gas tax proportional to four cents on a 31-cent gallon would today be 16 cents on a $1.24 gallon, double what Lewis wants it to be.

Conservatives rightly describe indexing of tax backets as a cure for "surreptitious, unlegislated" tax increases. They should, therefore, describe what has happened to the gasoline tax since 1959 as a "surreptitious, unlegislated" tax cut.

There are today many varieties of liberalism and conservatism, with interesting similarities and incongruities, rather like the Synoptic Gospels. Keeping track of them requires an intellectual micrometer. But unless I have missed something, there is not yet an ideological difference between conservatives and liberals regarding potholes. Whites and blacks, Jews and gentiles, WASPs and ethnics—we are all against bridges falling down.

But many conservatives have not come to terms with this fact: private life—including private enterprise—depends on a publicly provided physical infrastructure. It is not optional; neither is it inexpensive. It illustrates this fact: a substantial portion—perhaps 80 percent—of public spending is not really a subject of serious disagreement.

And I think if there is any place that we, as members of this committee, could justify an increase in the user fees or taxes, whichever you choose to call it, it would be with respect to the highway trust fund for this country. We have literally billions of dollars committed to rebuild the bridges. We have built 95 percent of—95 percent of the interstate is completed now, but 10 percent is

already worn out and needs to be resurfaced and reconstructed at a rapidly increasing rate.

If you go back to 1959, when that was originally passed, at $0.04 a gallon, by today's standards it should be $0.16 a gallon, and we haven't got the money in the trust fund to allocate out. We have got the capacity and the construction industry to build the roads. And I would very much like to encourage this committee to look favorably upon a plan which would put at least $0.05 a gallon new users fee on. And put it in the highway trust. And it would be helpful, I might mention, with the problem we face as far as the budget deficit is concerned because there is always a time difference between when the revenue comes in and when it is allocated out. And as you all know, the trust fund for highways is dedicated to highways. But it also could be used greatly in part of the unified budget. So it will be helpful in these overall figures for the next 2 years at least in this process.

And I would really like to see the committee very seriously consider an increase in the user fee so we can continue to keep the roads of this country in good shape. Right now, the highways in this country are going downhill. And I think it is just something that we can't afford in this country. We can't afford to let our transportation system lag.

Now in saying that, I don't think that this money should go in—that there should be no tax put on gasoline at the pumps that is not put into the trust fund dedicated for the highways. And there was a suggestion surfaced by Secretary Lewis about having a certain one penny dedicated to mass transit. I think if one looks, there is a considerable amount of money that is spent now for mass transit already out of the highway trust fund because the States have the prerogative to make the choices of how they spend it both out of their interstate funds as well as their primary funds.

So I would hope we would look at that very favorably and very carefully. And it would be one part of the bill. And it might be the only tax that could be raised in this country that would actually bring back an immediate benefit back to the users of highways, which is basically all the country. All you have to do is just go around the country and just look where there is a plant or a facility, whether it's a producer of minerals, agricultural products, timber products or manufactured goods or whatever—if it is by a place where there is a bad road system, I will show you a plant that is going to end up going broke. And we have a whole country—a network of roads on the decline. And I don't think we should sit idly by and allow this to continue to deteriorate. So I would hope that we would really give this favorable consideration in this overall picture.

I don't know exactly what the amount is that the committee would go for, how far we should go, but I would hope that the committee would really entertain very seriously and with a lot of consideration of increasing the commitment that we are making to the highways. And it will help us enormously in our budget process. Because just knowing how it works, there will be, no matter what we try to do, a lag between the revenue coming in and the outlays. And it will be very helpful to the efforts of the highway users. And that's all of us in this country.

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Senator WALLOP. Thank you, Senator.

There is a vote, I am informed, on the Rickover business. We probably ought to pass that. [Laughter.]

Senator Long has gone. Whoever is the first one back can continue calling witnesses. I will call the first panel up here.

Senator DOLE. Could I have permission to put a statement in the record? I think we could raise enough revenue without any energy tax.

Senator WALLOP. By all means, the statement will be inserted in the record.

[The statement of Senator Dole follows:]

STATEMENT OF SENATOR BOB DOLE

Mr. Chairman: One of the most positive economic trends over the past year and a half has been the moderation in the price of petroleum and petroleum products. This moderation has been a major factor in the administration's successful war to reduce inflation. Nevertheless, there are signs that oil prices have bottomed out and are on the way back up. For instance, just last weekend, I was told that in my hometown of Russell, Kans., gasoline prices have increased more than 20 cents per gallon since the first of the year.

I have spent the last several months working with the staff and other members reviewing a variety of tax increase options before the committee. Based on that review, it is possible to meet the Finance Committee's revenue targets without resorting to any energy tax option.

I recognize, of course, that some members may feel that it would be easier to impose a new energy tax than to vote for some of the other hard choices before the committee. I also recognize there are helpful conservation effects from an energy tax. Finally I recognize that at some point we are going to have to confront the issue of adequately funding the Federal highway program, especially funding the repairs needed for our roads and bridges. For any of these reasons, we may end up turning to an energy tax as part of the revenue increase package. As a result, I look forward to the testimony today so that the committee can have benefit of the advice of producers, marketers and consumers on what energy tax option makes the most sense.

Consequently I commend Senator Wallop for setting up these hearings and for assembling the broad spectrum of views represented here today.

Senator WALLOP. Senator Symms, on your note on the panels, if we ever get to them, there are a number of people, highway users and other, who will be testifying.

Senator SYMMS. Mr. Chairman, if I could just say one other thing.

Senator WALLOP. Sure.

Senator SYMMS. I don't know of any tax that is more equitable than that one or one that has a more even effect on each individual State. It's pretty uniform across the country in the way it affects people. And I think it is probably one that would be the best for all of us.

Senator WALLOP. Now there are 15, 16 or 17 witnesses.

Senator NICKLES. I would ask you, Mr. Chairman, if I might be able to sit in.

Senator WALLOP. By all means.

And I would hope that folks could find a means to summarize most of their statement.

The first panel will be Mr. Charles DiBona, president of API; Mr. Robert Vinson, chairman of the tax committee of IPAA; Mr. Carl Bagge, president of the National Coal Association.

The first member back can continue on this. The committee will stand in recess until the first one returns.

[Whereupon, at 2:59 p.m., the hearing was recessed.]

AFTER RECESS

Senator DOLE. I think the other members are on their way back. And if you want to proceed, that's fine. Are you first?

Mr. DIBONA. I'm first.

Senator WALLOP. Please begin. Sorry for the interruption. As I stated, we have a number of witnesses. I know this was short notice, but perhaps we could try to get done this afternoon.

STATEMENT OF CHARLES J. DiBONA, PRESIDENT, AMERICAN PETROLEUM INSTITUTE, WASHINGTON, D.C.

Mr. DIBONA. Thank you, Mr. Chairman.

I'm Charles DiBona, president of the American Petroleum Institute, which represents all segments of the petroleum industry of the United States. We welcome the opportunity to be here. In accordance, with your rules, I have a 4-minute statement to make. But before I do that, I would like to take my additional minute to respond to Senator Dole's comment.

As president of the API, I have a very thick skin. You have to. But you are getting through it. [Laughter.]

But I'm glad he corrected the record because the position of the API members, collectively, and to my knowledge individually, has never been to oppose a solution to this problem.

Senator DOLE. But did you support a budget resolution?

Mr. DIBONA. Yes, sir. Many of the members of the API are also members of the Business Roundtable. The chairman of the API is chairman of the Business Roundtable at the moment. The Business Roundtable has taken a broader view of the whole situation—broader than the API which is principally concerned with the energy component of this. And they have put forward a position intended to help resolve this problem. There is nothing inconsistent in the API position and the Business Roundtable position.

And in my statement I think you will see that while we oppose a large new energy tax, we are looking for some solution to the problem. And we try to be responsive to the questions that were asked. That is, to the extent there is such a tax placed on, then what principle should one apply to try and have the least detrimental effect to the economy and to the energy security of the country. And we do attempt to respond to that.

And I will now summarize my longer statement.

Senator DOLE. That's fine. But there is going to be a big vote tomorrow in the House and I hope you are actively working to support the budget resolutions so we can get the economy turned around. We can't do that if we have people in the private sector not helping.

Mr. DIBONA. I will go now with my statement.

I would like to address energy taxation by first setting the record straight on some widespread misconceptions about the petroleum industry; then assessing the consequences for the U.S. industry in general of large new energy taxes.

One common misconception is that oil industry profitability is generally higher than that of other industry, and that it is immune

from sharp profit declines. My written testimony demonstrates that this is not so.

Another misconception is that oil companies pay very little in taxes. In fact, they pay the same roughly 38 percent of income as other companies, plus another 19 percent in the so-called windfall profits tax, for a total of $26 billion last year from the top 2 dozen companies alone.

Some suggest that it would be relatively painless to the Nation to get more tax revenue from petroleum. It will not. Higher taxes on domestic oil producers will reduce domestic production, increase reliance on imported oil, and play into the hands of OPEC. Much progress has been made over the past few years in reducing U.S. dependence on oil imports. The decontrol of oil markets has resulted in record levels of exploration and production investment in the United States, which in turn brought about a reversal in the finding and production trend, and imports are down by one-half.

Domestic production of crude oil is up an estimated 700,000 barrels a day over what it would have been had oil decontrol not been initiated. But the so-called windfall profits tax will cost us some $1½ to $2 million dollars a day by the late 1980's. Additional taxes on oil production will push future production further below what could be achieved.

In fact, right now because of current lower profits, changed expectations about future profitability and the threat of new taxes, companys' investment plans are being cut back. The number of drilling rigs working in the United States has dropped by more than one-third. New taxes will speed the decline.

Let me now turn to the impact of new energy taxes on U.S. industry generally. With U.S. industries burdened by such new energy taxes while foreign counterparts are not, the inevitable result will be a loss of competitiveness for the U.S. firms both in overseas markets and in competition with foreign firms at home. Autos, petrochemicals, steel, aluminum, and others could expect more layoffs; more plant closings.

The exact effect of any new energy tax will depend on the form of such a tax and its rate. Because oil only taxes, such as an import fee or excise tax on all domestically utilized oil, would be imposed on a narrower base than an all-energy tax, the rate of tax would be higher, and the effects on oil using industries correspondingly more severe.

Further, taxes on oil alone will affect conditions in other energy markets so that industrial users of non-oil-energy sources will be adversely affected; probably much more severely than under a tax on all energy sources.

In summary, new taxes on energy, depending on their form, will either jeopardize the energy well-being or the economic well-being of this country, or both. The API is against a new large tax increase on energy. But if that is the direction you go, we offer the following principles:

Taxes that would adversely impact investment and employment. And by that I mean in industry generally in the United States. It would hurt the country the most and should be rejected.

Taxes that single out particular energy sources would even more adversely affect U.S. business.

The least detrimental effect on the economy would be revenues raised through consumption excise taxes on as broad a base as possible and not on energy alone.

Mr. Chairman, it is critically important that the formulation of tax policy in the current budgetary crunch not jeopardize the energy capability nor the industrial capacity of this Nation.

Thank you.

Senator WALLOP. Thank you, Mr. DiBona.

[The prepared statement of Charles J. DiBona follows:]

STATEMENT OF CHARLES J. DIBONA, PRESIDENT, AMERICAN PETROLEUM INSTITUTE

I am Charles J. DiBona, President of the American Petroleum Institute. The API is a trade association representing all segments of the petroleum industry.

I would like to address energy taxation by first setting the record straight on some persistent and widespread misconceptions about the petroleum industry, and then assessing the consequences for U.S. industry generally of large new energy taxes. Failure to recognize these misconceptions and the industrial consequences could lead to adoption of new energy taxes that would be damaging to this country's energy and economic well-being.

One common and damaging misconception concerning the oil industry is that its profitability is generally higher than that of other industry, and that it is immune from sharp profit declines. In fact, while oil profits did grow more in 1979 and the first quarter of 1980 than those of most other industries, oil profits and return on investment have trended downward during the past two years. Results for the first quarter of 1982 show that the decline has become precipitous. Profits of the nation's leading oil companies declined about 30 percent in the first quarter from the year earlier level. Between these two periods, return on investment fell by 35 percent. The trend in profitability is shown on an accompanying chart.

This downward trend leaves petroleum return on investment ahead of other U.S. industries for the moment--by just 1.2 percent. Past experience indicates that rates of return in petroleum are comparable to average returns in U.S. industry

over the longer term, and that when they exceed these averages for a time, new investment and falling profits quickly bring them back into comparability.

Another widespread misconception is that oil companies pay very little in taxes. In fact, oil company tax payments have been sizable by any standard and have continued to rise. Federal current income and windfall profit tax payments by leading oil companies grew to almost $26 billion in 1981 from $16 billion in 1980. For 1981, petroleum company federal income tax liability alone amounted to roughly 38 percent (current taxes divided by pre-tax income)--comparable to that of other companies. But the windfall profit tax imposed on domestic oil producers has created a dramatic disparity now in total federal tax liability--in 1981, roughly 57 percent in basic federal tax payments for oil compared with 38 percent for companies in other industries. (Chart II)

And this measure of oil industry tax payments does not reflect the practice of state and local government to tax oil companies more than firms in other industries. It also excludes the billions of dollars of severance taxes on production and property taxes on oil and gas reserves paid by U.S. oil producers .

Despite falling petroleum profits and rising petroleum taxes, there are proposals for additional taxes on petroleum--including those listed in the press release for the hearings today. Some suggest that it would be relatively painless to the nation to get more tax revenue from petroleum. It will

not. Higher taxes on domestic oil producers will reduce future domestic production, increase reliance on imported oil and play into the hands of OPEC. For this reason, suggestions for a corporate minimum tax which would tax domestic oil production or for a national crude oil excise tax would be extremely counterproductive to this country's energy well-being.

Much progress has been made over the past few years in reducing U.S. dependence on oil imports. U.S. oil imports averaged 5.7 million barrels per day in 1981. This was down 35 percent from the peak level of 8.8 million barrels per day in 1977. In the first three months of 1982, oil imports fell to about 4.5 million barrels per day.

The reasons for the reduction in U.S. oil import dependence are simple and largely stem from the return to a free market in oil as a result of the elimination of price controls. Consumption has declined as oil users responded to higher prices by increasing the efficiency of their use of oil. Also, production of oil in the U.S. has stabilized after a long period of decline. The decontrol of oil markets has resulted in record levels of exploration and production investment in the U.S. which, in turn, brought about a reversal in the finding and production trend. Between 1974 and 1981, the net additions to property, plant, and equipment of the leading U.S.oil companies more than doubled. And as Chart III illustrates, the additions were primarily for petroleum activities, especially the development of new supply in non-OPEC countries around the world.

The U.S. produced about 3.1 billion barrels of oil in 1981. This represented about 12 percent of the estimated proved reserves of the U.S. at the start of the year. Obviously, if the U.S. is to continue to produce domestic oil at such a rate (which if no new reserves were found would exhaust our known and proven reserves in less than nine years), there must be substantial, regular new additions to the reserve inventory. If the U.S. is to maintain a significant production level into the 1990s, then the reserve base for such production must be found and developed. Much will necessarily have to come from as yet undiscovered domestic sources. This can be done.

But because of current lower profits and changed expectations about future profitability, companies' investment spending plans are being reevaluated and sometimes cut back from previously planned levels. While current capital spending continues to rise, the latest fourth quarter 1981 data on new capital appropriations ($6.6 billion) are 20 percent below third quarter appropriations ($8.2 billion) and almost 50 percent beneath the peak 1981 first quarter level ($12.1 billion). After peak activity in December 1981, the number of drilling rigs working in the United States had dropped by more than one-third in May 1982. Moreover, there has been a slide in seismic exploration, the first stage in the long search for oil.

Minimizing declines in domestic crude oil and natural gas supplies and thereby holding down the nation's dependence on foreign sources will require steady expansion of drilling to discover and develop petroleum reserves. Bankers Trust

Company, for example, has estimated that achieving this goal will require capital expenditures for domestic exploration and development of over $700 billion between 1982 and 1990.

The use of market forces in the U.S. is a proven means to enhance production from domestic resources. For example, domestic production of crude oil is up an estimated 700,000 barrels a day over what it would have been had oil price decontrol not been initiated by President Carter and completed by President Reagan. And were it not for the so-called "windfall profit" tax that accompanied decontrol, domestic production would be even higher--some 1.5 to 2.0 million barrels a day higher by the late 1980s, according to several estimates. Additional taxes on oil production will make it still less attractive and will push future production further below what could be achieved.

Let me now turn to the impact of new energy taxes on the ability of U.S. industry generally to compete with foreign counterparts. Energy is a key input to a great many U.S. industries, and new energy taxes clearly will raise their costs of production. With U.S. industries burdened by such a new tax while foreign counterparts are not, the inevitable result will be a loss or competitiveness for U.S. firms, both in overseas markets and in competition with foreign firms at home. Thus, such energy dependent industries as autos, petrochemicals, steel, aluminum and others could expect more drops in capacity utilization, more layoffs, and more plant closings.

The extent to which particular U.S. industries will be affected by any new energy tax will depend on the form of such

a tax and its rate. In general, because "oil only" taxes such as an import fee or excise tax on all domestically utilized oil would be imposed on a narrower base than an all energy tax, the rate of tax would be higher and the effects on oil using industries correspondingly more severe. Further, taxes on oil alone will affect conditions in other energy markets--for example, through the incremental pricing provisions of the Natural Gas Policy Act of 1978--so that industrial users of non-oil energy sources will be adversely impacted, probably much more severely than under a tax on all energy sources.

In summary, new taxes on energy, depending on their form, will either jeopardize the energy or the economic well-being of this country, or will do both.

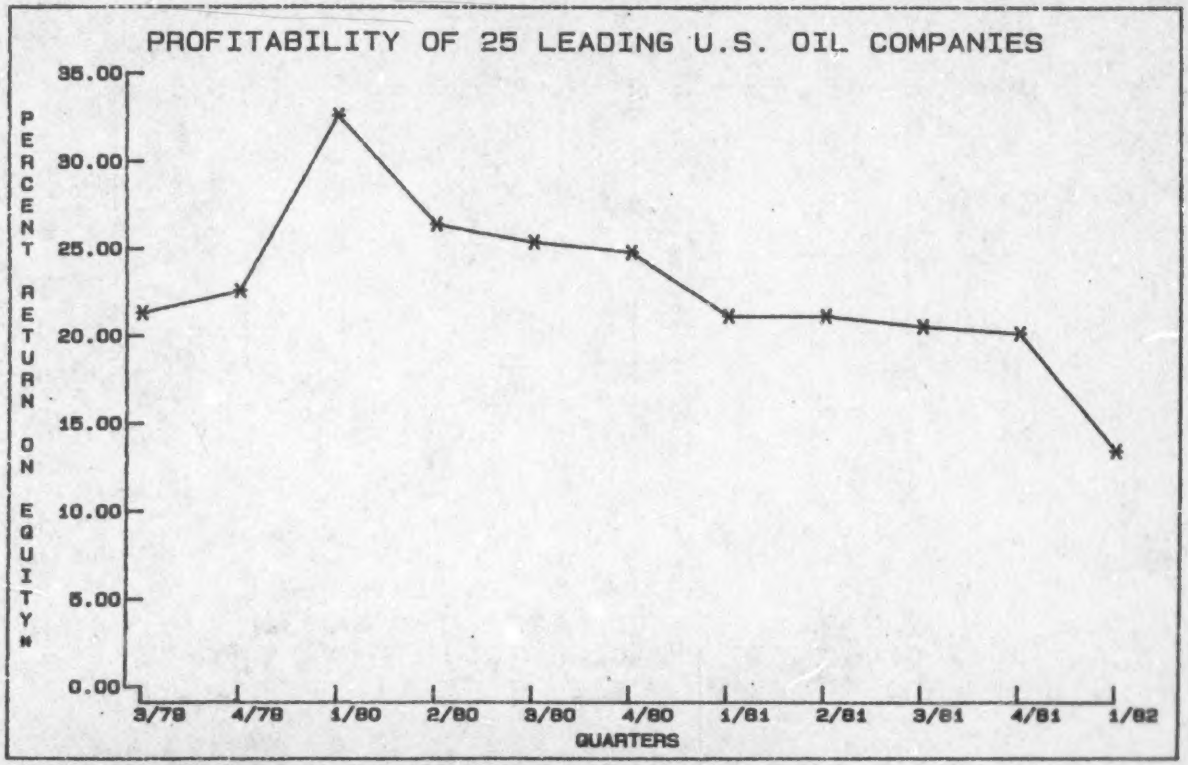
Within the API position which is against any tax increase on energy, the following additional principles apply. Taxes that would adversely impact investment in domestic energy production or which would adversely impact U.S. investment and employment generally would hurt the country the most and should be rejected. Any tax which increases the cost of producing and distributing goods and services in the U.S., and would thus reduce the ability of U.S. businesses to compete against foreign counterparts at home or abroad, likewise should be rejected. Taxes that single out particular energy sources--for example, a tax on oil production but not hydroelectric power--would even more adversely affect U.S. business and

should also be rejected. Any new tax revenues that may be required would have a less detrimental effect on the economy if they are raised through consumption excise taxes. And energy consumption should not be singled out as the sole source for this revenue.

Mr. Chairman, it is critically important that the formulation of tax policy in the current budgetary crunch not jeopardize the energy capability nor the industrial capacity of this nation. To do so would threaten the well-being and security of all citizens.

Thank you for this opportunity to present these brief thoughts.

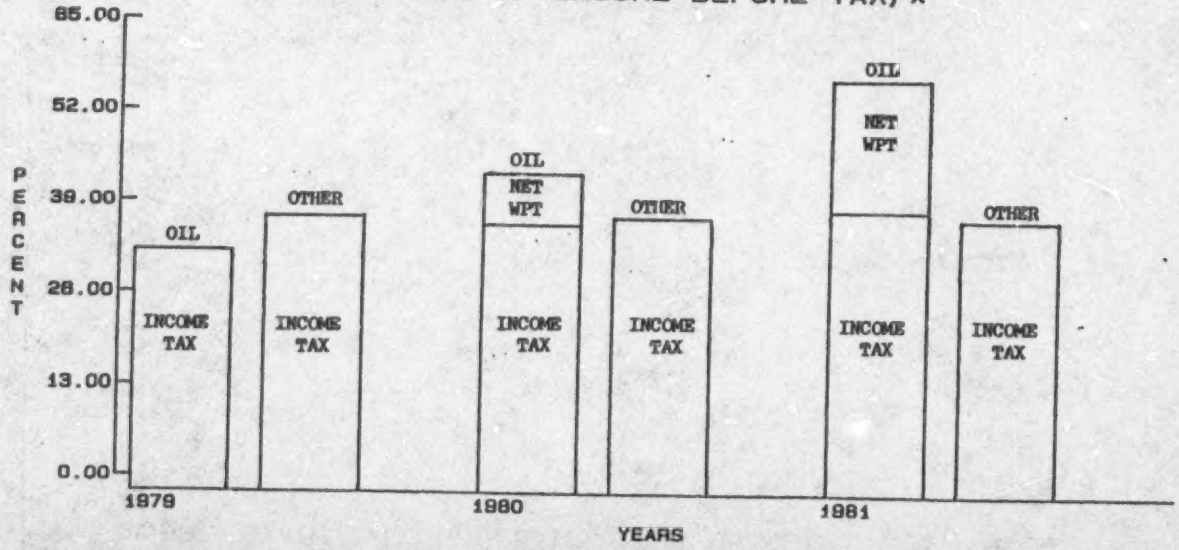
CHART I



*ANNUALIZED NET INCOME OF THE INDICATED YEAR TO DATE AS A PERCENT OF TOTAL STOCKHOLDERS EQUITY AT THE BEGINNING OF THE YEAR.
FIRST QUARTER 1982 DATA ARE PRELIMINARY...

CHART II

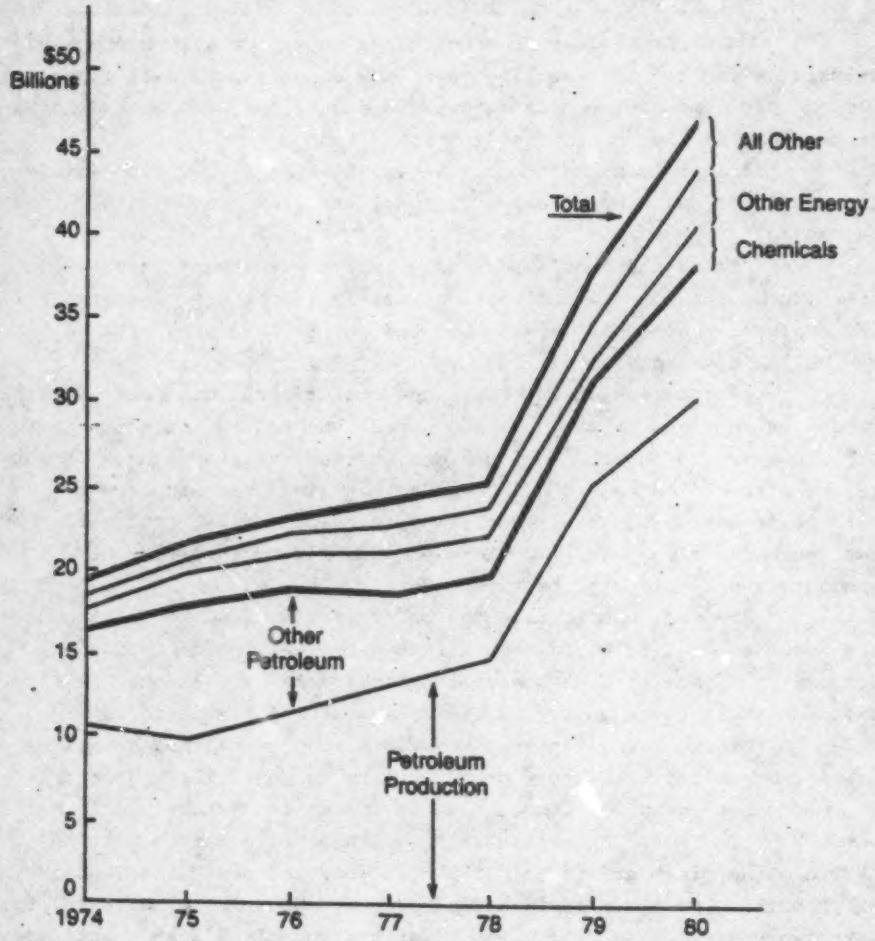
CURRENT DOMESTIC TAX BURDEN OF U.S. OIL COMPANIES COMPARED WITH OTHER COMPANIES 1979-1981 (INCOME AND WINDFALL PROFIT TAX AS PERCENTAGE OF INCOME BEFORE TAX) *



*NOTE: OIL INCOME TAXES SHOWN FOR 1980 AND 1981 ARE WHAT WOULD HAVE BEEN PAID WITHOUT THE WINDFALL PROFIT TAX, WHICH IS SHOWN NET OF THE INCOME TAX OFFSET. IN THE WPT COMPUTATIONAL PROCEDURE, THE WPT IS DEDUCTED FROM INCOME, AND INCOME TAX IS LEVIED ON THE RESIDUAL. IF THERE WERE NO WPT, THE INCOME TAX WOULD BE HIGHER--AS SHOWN ABOVE.
SOURCE: AMERICAN PETROLEUM INSTITUTE AND FEDERAL TRADE COMMISSION SURVEYS.

Chart III

Worldwide Additions to Property, Plant and Equipment of 26 U.S. Oil Companies



Source: Survey by Energy Information Administration, U.S. Department of Energy

American Petroleum Institute
2101 L Street, Northwest
Washington, D.C. 20037
202-457-7028

news release

For Release After 2 p.m., EDT, Wednesday, June 9, 1982

WASHINGTON, June 9 -- New taxes on energy will seriously jeopardize the economic well-being of the country, and will especially hamper U.S. companies competing with foreign firms, the president of the American Petroleum Institute said today.

In testimony before the Senate Finance Energy Subcommittee, Charles J. DiBona opposed any additional tax increase which singled out energy.

"Taxes that would adversely impact investment in domestic energy production, or which would adversely impact U.S. investment and employment generally would hurt the country and should be rejected," DiBona said.

"Any tax which increases the cost of producing and distributing goods and services in the U.S. and would thus reduce the ability of U.S. business to compete against foreign counterparts at home or abroad, likewise should be rejected," he added. "Taxes that single out particular energy sources -- for example, a tax on oil production but not hydroelectric power -- would even more adversely affect U.S. business and should also be rejected."

However, DiBona made the point that any new tax revenues that may be required would have a less detrimental effect on the economy if raised through consumption excise taxes, although he opposed singling out energy as the sole source for such revenue.

DiBona termed a "misconception" the "common and damaging" assumption that oil industry profitability is generally higher than that of other industry, and that it is immune from sharp profit declines.

"In fact," he said, "while oil profits did grow more in 1979 and the first quarter of 1980 than those of most other industries, oil profits and return on investment have trended downward during the past two years. Results for the first quarter of 1982 show that the decline has become more precipitous. Profits of the nation's leading

(more)

oil companies declined about 30 percent in the first quarter from the year-earlier level. Between these two periods, return on investment fell by 35 percent."

He pointed out that this downward trend leaves petroleum return on investment ahead of other U.S. industries for the moment -- by just 1.2 percent.

Another widespread misconception, DiBona said, is that oil companies pay very little in taxes.

"In fact," he said, "oil company tax payments have been sizable by any standard and have continued to rise. Federal current income and windfall profit tax payments by leading oil companies grew to almost $26 billion in 1981 from $16 billion in 1980. For 1981, petroleum company federal income tax liability alone amounted to roughly 38 percent (current taxes divided by pre-tax income) -- comparable to that of other companies."

However, he said, the windfall profit tax created a dramatic disparity between the two sectors in 1981 -- roughly 57 percent in basic federal tax payments for oil compared with 38 percent for companies in other industries.

And these payments, he said, do not reflect the practice of state and local government of taxing oil companies more than firms in other industries. It also excludes the billions of dollars in severance taxes on production, and property taxes on oil and gas reserves, paid by U.S. oil producers.

He warned that higher taxes on domestic oil producers will reduce future domestic production, increase reliance on imported oil, and play into the hands of OPEC.

Senator WALLOP. Senator Bentsen, did you have a document that you wished to have put in the record?

Senator BENTSEN. Only that I ask for a unanimous-consent request that a resolution passed by Tipro, the conference I attended earlier this week, be put in the record at the appropriate place.

Senator WALLOP. Without objection.

[The resolution referred to follows:]

FRANK PITTS
1910 AUSTIN NATIONAL BANK TOWER
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western union Mailgram

1-027342A158005 06/07/82 ICS IPMHSTA WSHA
0171 MGM HOUSTON TX 550 06-07 82 337P CDT

SENATOR LLOYD BENTSEN
SUBCOMMITTEE ON ENERGY & AGRICULTURAL TAXATION
DIRKSEN SENATE OFFICE BLDG., ROOM 2227
WASHINGTON DC 20510

THE TEXAS INDEPENDENT PRODUCERS AND ROYALTY OWNERS ASSOCIATION RESPECTFULLY REQUESTS THAT THE FOLLOWING RESOLUTION PASSED BY ITS MEMBERSHIP ON JUNE 7, 1982, BE ENTERED INTO THE RECORD OF YOUR SUBCOMMITTEE HEARING ON ENERGY TAXATION SCHEDULED FOR JUNE 9, 1982.

RESOLUTION

WHEREAS, INDUSTRY REACTION TO THE ECONOMIC SITUATION AND CONGRESSIONAL PROPOSALS HAS RESULTED IN OVER 1,600 IDLE RIGS AND CREWS WHICH MEANS SOME 35 PERCENT OF THE NATION'S TOTAL RIGS HAVE SHUT DOWN IN ONLY FIVE MONTHS, AND THE NUMBER IS INCREASING AT A CURRENT RATE OF NEARLY 10 PER WEEK,

WHEREAS THE DOMESTIC OIL AND GAS INDUSTRY FACES ANNUAL CAPITAL COSTS APPROACHING 50 BILLION, MORE THAN A SIX-FOLD INCREASE OVER THE EARLY 1970'S, AND A FIGURE WHICH THE CHASE BANK ESTIMATES WILL RISE TO $100 BILLION IN CONSTANT DOLLARS BY 1990,

AND WHEREAS THE EASIEST RESERVES HAVE ALREADY BEEN FOUND, NECESSITATING A PUSH TOWARD NONEXPLORED AREAS--CHIEFLY DEEP HORIZONS WHERE DRILLING COSTS CAN 60 TIMES AS MUCH A THOSE FOR SHALLOWER WORK,

AND WHEREAS, NATURAL GAS PRICE CONTROLS AND SOFT OIL MARKETS HAVE LED TO SITUATIONS WHERE INCOME DOES NOT KEEP PACE WITH INCREASING COSTS,

AND WHEREAS, INDEPENDENT PRODUCERS, WHO DRILLED 89 PERCENT OF ALL U.S. OIL AND GAS WELLS IN 1981 AND 91 PERCENT OF NEW FIELD WILDCATS, TYPICALLY REINVEST VIRTUALLY 100 PERCENT OF THEIR WELLHEAD REVENUES IN THE SEARCH FOR MORE RESERVES AND ARE THEREFORE ESPECIALLY VUNERABLE TO A COST-PRICE SQUEEZE,

AND WHEREAS, INDEPENDENTS HAVE DEMONSTRATED THEIR ABILITY TO SHARPLY INCREASE ACTIVITY WHEN ECONOMIC CONDITIONS MERIT, PLAYING THE LEADING ROLE IN 1981'S ALL-TIME HIGH OF 78,884 DOMESTIC COMPLETIONS--WHICH WAS 14,180 MORE THAN 1980'S RECORD-BREAKING TOTAL,

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PAGE 2

western union Mailgram

AND WHEREAS, THE ACCELERATED ACTIVITY HAS SLOWED THE DECLINE IN NATIONAL PRODUCTION TO THE POINT WHERE PRODUCTION REPLACEMENT IS NOW POSSIBLE, ALTHOUGH 1981 OIL PRODUCTION WAS DOWN 0.9 PERCENT AND GAS PRODUCTION WAS DOWN 0.6 PERCENT,

AND WHEREAS, THE NEAR-STABILIZATION OF DOMESTIC PRODUCTION AT A TIME OF LOW ENERGY DEMAND HAS SLASHED CRUDE OIL IMPORTS FROM 6.5 MILLION BARRELS PER DAY IN 1979 TO 2.8 MILLION BARRELS PER DAY IN MAY, THUS REDUCING A NATIONAL SECURITY PROBLEM WHICH NEVERTHELESS CONTINUES TO BE VERY SERIOUS,

AND WHEREAS STUDIES INDICATE THAT EVERY YEAR THE NATION MUST INCREASE THE NUMBER OF FEET DRILLED JUST TO STAY EVEN IN TERMS OF RESERVE DEVELOPMENT

AND WHEREAS, INDUSTRY'S ABILITY TO DRILL IS RESTRICTED BY EXCEPTIONALLY HIGH TAXES ON OIL AND GAS, INCLUDING AND OIL EXCISE TAX DESIGNED TO TAKE OER $227 BILLION FROM PRODUCERS AND ROYALTY OWNERS, AND STATE AND LOCAL LEVIES SUCH AS THE TEXAS SYSTEM WHICH IN 1982 WILL COLLECT OVER $2.8 BILLION FROM THE TEXAS OIL AND GAS INDUSTRY ACCOUNTING FOR 22 PERCENT OF LOCAL PROPERTY TAX COLLECTIONS AND MORE THAN 29 PERCENT OF TAX REVENUE AT THE STATE LEVEL,

AND WHEREAS THE SO CALLED WINDFAIL PROFIT TAX IS AIMED SOLELY AT DOMESTIC PRODUCTION AND THEREFORE ITS INDEPENDS AND ROYALTY OWNERS DISPROPORTIONATELY,

AND WHEREAS 2,000,000 ROYALTY OWNERS IN THE NATION, INCLUDING 650,000 IN TEXAS HAVE BEEN SELECTIVELY CHOSEN, REGARDLESS OF THEIR ABILITY TO PAY, FOR SEVERE EXCISE TAX TREATMENT ON PRODUCTION OF THEIR ASSETS OVER WHICH THEY HAVE NOT CONTROL,

AND WHEREAS THE CONGRESS OF THE UNITED STATES IS CONSIDERING A NUMBER OF ILL ADVISED PROPSALS TO INCLEASE ENERGY TAXES STILL FURTHER POSSIBLY DESTROYING THE ABILITY OF THE DOMESTIC INDUSTRY TO OVERCOME ITS COST-PRICE SQUEEZE AND FIND THE RESERVES WHICH NATIONAL SECURITY AND ECONIMIC VITALITY REQUIRE,

BE IT THEREFORE RESOLVED THAT THE TEXAS INDEPENDENT PRODUCERS AND ROYALTY OWNER ASSOCIATION IN ANNUAL MEETING ASSEMBLED ON THIS SEVENTH DAY OF JUNE, 1982, THEREBY CALL UPON THE ADMINISTRATION AND CONGRESS TO SEEK WAYS OTHER THAN AN INCREASE INDIRECT TAXATION OF THE DOMSTIC OIL AND GAS PRODUCING INDUSTRY TO RESOLVE THE NATIONS BUDGETARY DEFICIT PROBLEMS,

FRANK PITTS

19121 EST

HGMCOMP

TO REPLY BY MAILGRAM, SEE REVERSE SIDE FOR WESTERN UNION'S TOLL - FREE PHONE NUMBERS

STATEMENT OF ROBERT E. VINSON, CHAIRMAN, TAX COMMITTEE, INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA, WASHINGTON, D.C.

Senator WALLOP. Mr. Vinson.

Mr. VINSON. Thank you, Mr. Chairman.

I am Robert Vinson appearing for the Independent Petroleum Association of America, and 30 unaffiliated State and regional associations which join in these comments.

I'm an independent oil and gas producer from Wichita Falls, Tex., and am chairman of the tax committee of the Independent Petroleum Association of America.

The press release announcing today's hearings listed five basic energy tax options on which comment is invited. Although not one of the listed options, we would like to express our gravest concern about the proposed alternative minimum tax, which would be at least as detrimental to the industry as those that were listed. And with your permission, Mr. Chairman, we would like to submit an additional alternative minimum tax summary which will be handed to the committee in a moment.

Senator WALLOP. By all means.

Mr. VINSON. In addition, we would like to thank the chairman and those of the committee who are here today who commented on and noted the adverse impact of the alternative minimum tax on oil and gas exploration and supplies.

In view of the existing economic conditions in the domestic petroleum industry, there is no least worse way to impose additional taxes. Only 2 years ago Congress decided arbitrarily to extract $227 billion from domestic oil producers. The so-called windfall profit tax was the largest tax ever imposed on any American industry. And except for the statements here today we have not heard a whisper of recognition that this largest of all taxes even exists. Instead, we hear that domestic oil producers will have to pay 20 or 25 percent of the new revenue target, as though such taxes could be levied with no effects on the Nation's energy supply position, employment, or import dependence.

Additional taxes of the magnitude being discussed would decimate drilling programs that already have been slashed by more than a third since last January 1.

Mr. Chairman, the recession has hit the oil patch with a vengeance. Consider the following points:

Average crude oil prices have dropped from about $35 a barrel a year ago to under $30 today. This has reduced producers, annual cash flow by some $15 billion.

The active rig count has dropped from more than 4,500 at the end of 1981 to 2,900 today.

Unemployment due directly to the idling of drilling rigs has risen by almost 25,000. Many additional thousands are unemployed in the oil survey industry, which is operating at only 65 percent of capacity. And if I may refer for a moment to the employment on rigs chart—what that recognizes is the drop of roughnecks and drillers by the idling of these specific drilling rigs. We figure about 15 of these employees for each rig. You multiply those 15 times the number of rigs idled equals that drop of employment. But it doesn't

take into account, and it is hard for us to document, the ripple effect out to the people who supply the goods and services to the drilling rigs, which will also increase unemployment.

Senator WALLOP. That figure, then, is just rig employees?

Mr. VINSON. That's the roughnecks and the drillers.

The number of seismic crews working, which is the leading indicator of future oil and gas exploration activity, continues on a steady decline. Availability of venture capital from outside investors has plummeted. Fortune magazine recently reported that publicly registered oil and gas drilling programs may generate only 50 percent of the money raised in drilling in 1981. The domestic petroleum industry also bears a significant tax burden. In 1981, the industry directly paid an estimated $58 billion in taxes, bonuses, and royalties to government at all levels in the United States. This does not include the tens of billions of dollars of income, real estate, and other taxes paid by industry employees, royalty owners, and shareholders.

Mr. Chairman, the 1973 Arab embargo culminated 17 long years of decline in the domestic petroleum industry. It was expected that Congress would reverse a long history of counterproductive policy that had decimated our industry. However, since the embargo, almost every year has brought legislative actions that can only be described as punitive. These have included continued price controls on crude oil and its products until controls were lifted; repealing percentage depletion for about 85 percent of U.S. oil and gas production; several price rollbacks when we had crude oil price controls which together denied producers more than $5 billion of price increases authorized by Congress; and retroactive imposition of a tax on cash expenditures.

Today, the outlook is uncertain indeed. At no previous time in history have we deactivated rigs and canceled drilling programs by anything approaching what has occurred in the past 5 months. I appeal to this committee and the Congress to reject new taxes, and to give our industry, along with the economy generally, a breathing spell in which to recover its equilibrium without the threat of new economic shock waves imposed by fiscal policy proffered in the false hope of restoring stability.

Thank you, sir.

Senator WALLOP. Thank you, Mr. Vinson.

[The prepared statement of Robert E. Vinson and alternative tax summary follows:]

Statement of Robert E. Vinson
Before the Senate Finance Committee
June 9, 1982

My name is Robert E. Vinson. I am appearing here as chairman of the Tax Committee of the Independent Petroleum Association of America (IPAA), a national organization of independent explorer-producers, having almost 8,000 members in every producing area in the nation. Together with the thirty unaffiliated state and regional associations which join us in these comments, we represent essentially all of the 15,000 independent oil and gas producers who account for about 90% of all the drilling in the United States. We welcome and appreciate this opportunity to express our views on tax policy issues under consideration by this committee.

The Subcommittee's June 2 press release announcing today's hearing lists five "basic energy tax options" on which comment is invited. At the outset, I wish to state that the IPAA opposes each of these "options" and is opposed to increasing taxes on any sector of the economy.

In view of existing economic conditions in the domestic petroleum industry, there is no "least worst" way to impose additional taxes. We are told that the Senate-adopted budget calling for $108 billion in new revenues is the "force" requiring greater taxes on the petroleum industry. This procedure is designed to create a climate of "inevitability," and is a disservice to the nation because it addresses an arbitrary revenue target while ignoring completely both current industry conditions and unavoidable further declines in future petroleum exploration, development and production.

Only two years ago, the Congress decided arbitrarily to extract $227 billion from the domestic crude oil producing industry. The so-called "Crude Oil Windfall Profit Tax Act of 1980," in no way related to either profits or windfalls, was the largest tax ever imposed on any American industry. In the current budget discussions, we have heard not a whisper of recognition that this largest-of-all tax even exists. Instead, we hear that domestic petroleum producers will have to pay 20 or 25% of the budgeted revenue target. Figures in the range of $25 to $30 billion in additional petroleum taxes are reported as though such new taxes could be levied with impunity with no effects on the nation's energy supply position, employment, import dependence, balance of payments, etc.

Such expectations reflect, at best, a dream world attitude that is unreal, and at worst, a cynical disregard of the existing critical economic conditions in the domestic petroleum industry. Additional taxes of the magnitude being discussed would decimate completely domestic drilling programs that already have been slashed by more than a third since last January 1. As of today, we have idled more drilling rigs than the industry owned just six years ago (see Chart 1). Never has the industry experienced such a precipitous decline in drilling activity.

Past experience has amply demonstrated that tax policy can be directed at either encouraging or discouraging domestic energy resource development. Unfortunately, tax policy in recent years has served to discourage exploration, development and production. In some instances, the negative reactions to tax policy changes were immediate and significant.

For example, from more than 100 extractive mineral industries, Congress singled out oil and gas in an action that reduced by 20% the rate of statutory depletion for petroleum in 1969. This was followed in both 1970 and 1971 with the two largest drops in exploratory drilling in the history of the industry.

Again, in 1976, independent producers, responding to improved prices, increased their expenditures for exploration and development by 71% over the previous year. But in October 1976, Congress subjected intangible drilling costs to the present "add-on" 15% minimum tax, and in 1977 exploration-production outlays by independents increased only 6%.

Recognizing that this latter provision impacted most severely on those most vigorously exploring for new petroleum resources, Congress partially corrected the disruptive impact of the minimum tax on IDC's in 1977.

As we know from experience following previous changes in energy tax policy, it can take years for the industry to recover from such changes because oil and gas exploration is a capital intensive activity involving long lead times.

Only recently, because of market incentives, the domestic industry had begun to make some solid gains toward significantly reducing dependence on foreign oil. In the past two years, 1980 and 1981, successive records were established in well completions in the United States. In 1980, the industry added new crude oil reserves equivalent to annual production for the first time in 14 years. We believe when the numbers are in, the year 1981 will have proved to be even better. But as I have already indicated,

the unprecedented slump in rig activity in just the past five months raises great doubts about the future.

When IPAA testified before the Senate Finance Committee in March, we stated that in spite of the recent favorable industry trends resulting from a strong price incentive, the falling price of crude was reducing cash flow for producers, which in turn was jeopardizing future drilling activity. The purpose of our testimony today is to update the Committee on the continued rapid deterioration of the domestic exploration-producing sector of the petroleum industry.

Mr. Chairman, the recession has hit the oil patch with a vengence. Consider the following points:

- Average crude oil prices have dropped from about $35 per barrel a year ago to $29.75 per barrel today. (See Chart 2). This has reduced the domestic industry's annual cash flow from petroleum liquids at the wellhead by some $15 billion.

- The active rig count has dropped from 4,535 at the end of 1981 to 2,907 today. This drop in the rig count follows an almost uninterrupted increase that began in mid-1979. One of the factors influencing this drop is the uncertainty involved in the budget and tax policy discussions now occurring in Congress.

- Based on average employment of 15 people per rig, unemployment due directly to the idling of drilling rigs has risen by almost 25,000. Many additional thousands are unemployed in the oil service industry which is operating at only 65% of capacity. (See Chart 3)

- The number of seismic crews working, which is the leading indicator of future oil and gas exploration activity, continues on a steady decline. After reaching a high of 744 active crews in October 1981, the count in April was down to 626.

- Availability of venture capital from outside investors has plummetted. Fortune magazine recently reported that publicly registered oil and gas drilling programs may generate only 50% of the money raised for drilling in 1981.

- The decline in drilling will also affect general business activity and the prospects for recovery. Sam I. Nakagama of Kidder, Peabody and Company was quoted recently in Business Week magazine on this point.

> "Even more significant, in Nakagama's eyes, are the effects of the oil sector and the trade balance on business activity. Last year oil and gas drilling far outweighed the impact of either the auto or steel industry on the economy. Indeed, in December it accounted for 1.94% of industrial production -- more than autos and basic iron and steel put together. With the recent drop in oil prices, notes Nakagama, drilling activity has plunged by about 20% since late December, undermining a major source of economic strength (page 127)."

- Profits for a group of 26 petroleum companies reported for the 1st quarter of 1982 by the Oil and Gas Journal fell 28.6% from the same period in 1981. And 1981 was not an "up" year: profits for the 1st quarter of 1981 were 14.1% below 1980.

Obviously, the last thing this industry -- and our country -- need at this time is further uncertainty on the tax policy front.

The domestic petroleum industry already bears a significant tax burden and -- in actions discussed later -- has been repeatedly singled out for punitive treatment on several occasions in recent years. In 1981 the domestic petroleum industry directly paid an estimated $58 billion in taxes, bonuses, and royalties to government at all levels in the U.S. This does not include the tens of billions of dollars in income, real estate, and other taxes paid by 1.2 million industry employees, 2 million royalty owners, thousands of investors, and more than 15 million shareholders of petroleum companies.

By any standard, these revenues certainly add up to more than a fair share of the total tax burden and we are hard pressed to understand the attitude of some members of Congress who apparently feel that the tax burden on the industry is not heavy enough.

In considering the impact of any new tax proposal, we must be mindful that the nation still is importing about one-third of our total daily oil requirement. We have a long way to go in restoring relative energy security, and this is no time to create new uncertainty with precipitate new tax changes which are based on revenue considerations alone.

If in fact tax policy is a key element of overall economic policy, then it would appear that even the thought of increasing taxes on anyone at this time is counter to the conventional wisdom of economic conservatives and liberals alike.

When the economy is in recession is the worst time to increase taxes. During periods of recession, federal spending for welfare and unemployment benefits usually rise temporarily, and to the extent that non-essential government spending cannot be cut to make room for these increased outlays, there is some justification for short term government borrowing. To increase taxes at such a time, is to take revenues from the private sector which are essential to economic recovery.

The problem we face today is particularly frustrating because of our propensity over the past 30 years to run up deficits during periods of robust economic expansion. Budgets should be surplus and balanced in good times, so deficits can be better managed in slow times like the present.

An increase in taxes now would reflect an effort to institutionalize past spending sins more than an effort to confront today's economic situation. Now is the time for another round of budget cuts, not another round of tax increases.

For example, in CBO projections published March 30, 1982, Gross National Product is anticipated to increase at a rate below expected budget outlays. Projected spending of $963.1 billion in 1985 would represent a 46.5% increase from 1981, just 5 years. Similar increases in the following two 5-year periods would mean federal budget outlays of $2.67 trillion -- by 1995.

Judged by any yardstick, such spending expectations depict a government out of control. Such outlays would strangle the economy and assure a chronic stagflation with all its grisly symptoms -- unemployment, recession, inflation, and runaway interest rates.

For at least the past decade the domestic petroleum industry, especially independent producers, have demonstrated a remarkable consistency in reinvesting funds in new exploration, drilling and development activity equal to their gross wellhead revenues. These amounts, multiplied throughout our economy provide needed jobs, develop additional domestic energy production, and reduce our dependence on high cost insecure foreign oil. This economic activity will provide much greater revenue to the federal treasury (and state and local treasuries) than would siphoning the "cream" off the top directly to the government.

Mr. Chairman, the 1973 Arab embargo culminated 17 long years of decline in the domestic petroleum industry, and raised expectations that Congress logically would reverse a long history of counterproductive, regulatory, tax and price control policies that had decimated our industry. Such expectations were short-lived, however. Since the embargo, almost every year has brought legislative actions that can only be described as

punitive and which have resulted in chaotic energy policy. Only a brief summary serves to make the point:

In 1974, the Congress lifted the disastrous price controls implemented three years earlier by the Nixon Administration -- on all commodities except crude oil and its products.

In 1975, Congress repealed percentage depletion for about 85% of U.S. oil and natural gas production, singling out petroleum fuels among some 100 extractive industries benefitted by this tax provision. In the same session, it adopted the "Energy Policy and Conservation Act" extending price controls on crude oil until October 1981 under a "composite pricing" system that even today is causing holdover uncertainty throughout the industry.

In 1976 (February), the Federal Energy Administration rolled domestic oil prices back by $1.50 per barrel; in July, oil prices were frozen, and in December they were again rolled back by 20 cents. Congress adopted (September) the "Tax Reform Act of 1976" -- retroactively imposing a punitive tax on cash expenditures for intangible drilling costs.

In 1977 (February), the Department of Interior retroactively doubled rental fees on most oil and gas leases in Federal onshore areas. In March, U.S. prices for new crude oil again were rolled back by 45 cents per barrel. (Under EPCA, the bureaucracy denied domestic producers more than $5 billion of price increments authorized by Congress.)

In 1978, after two years of debate, Congress enacted the Natural Gas Policy Act extending federal price controls on natural gas to the intrastate market. This Act embodied the most complex regulatory system ever imposed on an American industry.

In 1979, President Carter announced a phased decontrol of U.S. oil prices by 1981 as intended by Congress, but proposed that Congress enact a confiscatory tax to divert most of the decontrol revenues to the Federal Treasury.

In 1980, Congress adopted the "Crude Oil Windfall Profit Tax Act," an unbelievably complex system of variable taxes that is incomprehensible to the industry and unenforceable by government.

In spite of this record of anti-productivity actions, the domestic petroleum industry has responded to the nation's energy needs with record-breaking drilling programs involving unprecedented expenditures. The industry's achievements, Mr. Chairman, would cause reasonable men to ponder what our industry might accomplish if, for a change, it was encouraged rather than discouraged by government. Today, the outlook is uncertain indeed. At no previous time in history have we deactivated rigs and cancelled drilling programs by anything approaching what has occurred in the past five months. Yes, more than one factor is involved -- crude oil price erosion, high interest rates, and the general uncertainty that has permeated the economy as a whole. But the most important factor is the expectation throughout the industry that Congress will again enact punitive tax changes critically affecting the already inadequate cash flow position of most petroleum explorer-producers.

If ever there was a time when the petroleum industry needed a positive signal from government, it is now. If ever there was a time that called for policy stability as opposed to uncertainty, it is now.

I appeal to this Committee and this Congress to reject new taxes, and give our industry -- along with the economy generally -- a breathing spell in which to recover its equilibrium without the threat of new economic shock waves imposed by a fiscal policy proffered in the false hope of restoring stability.

97-334 O—82—6

ROTARY RIGS ACTIVE

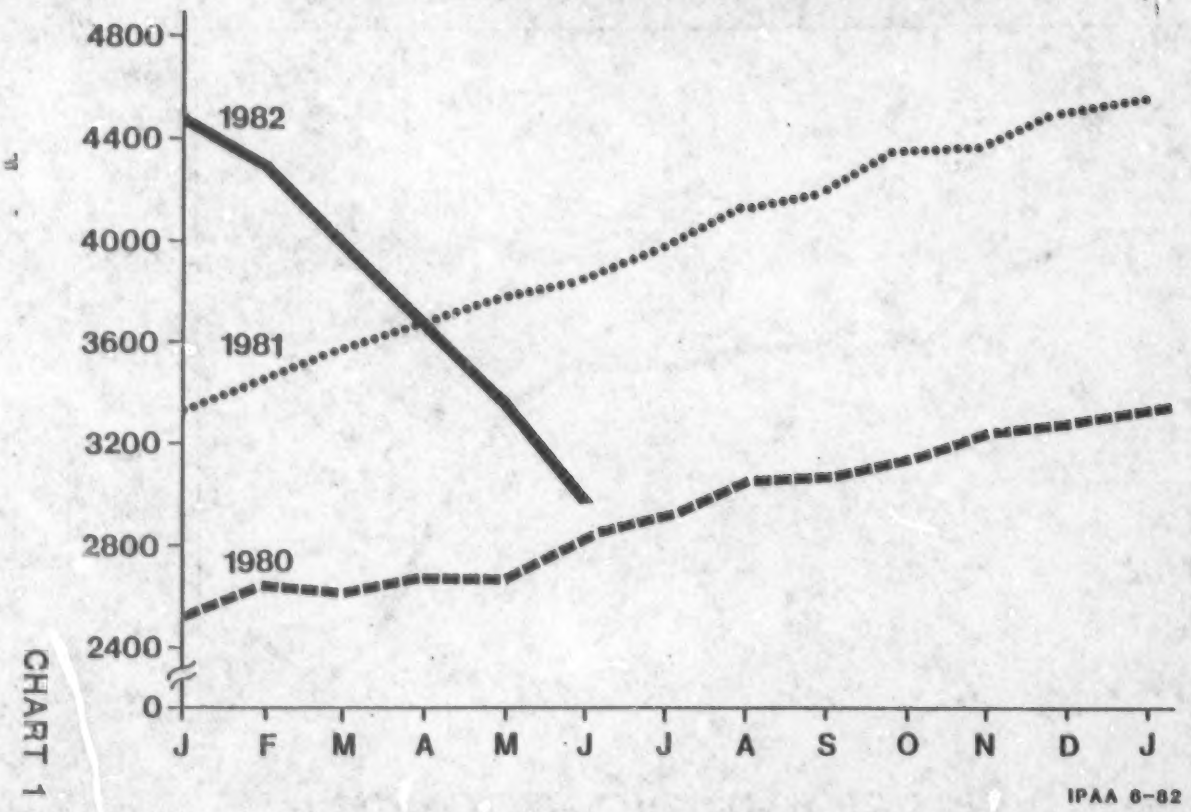

CHART 1

CRUDE OIL PRICES

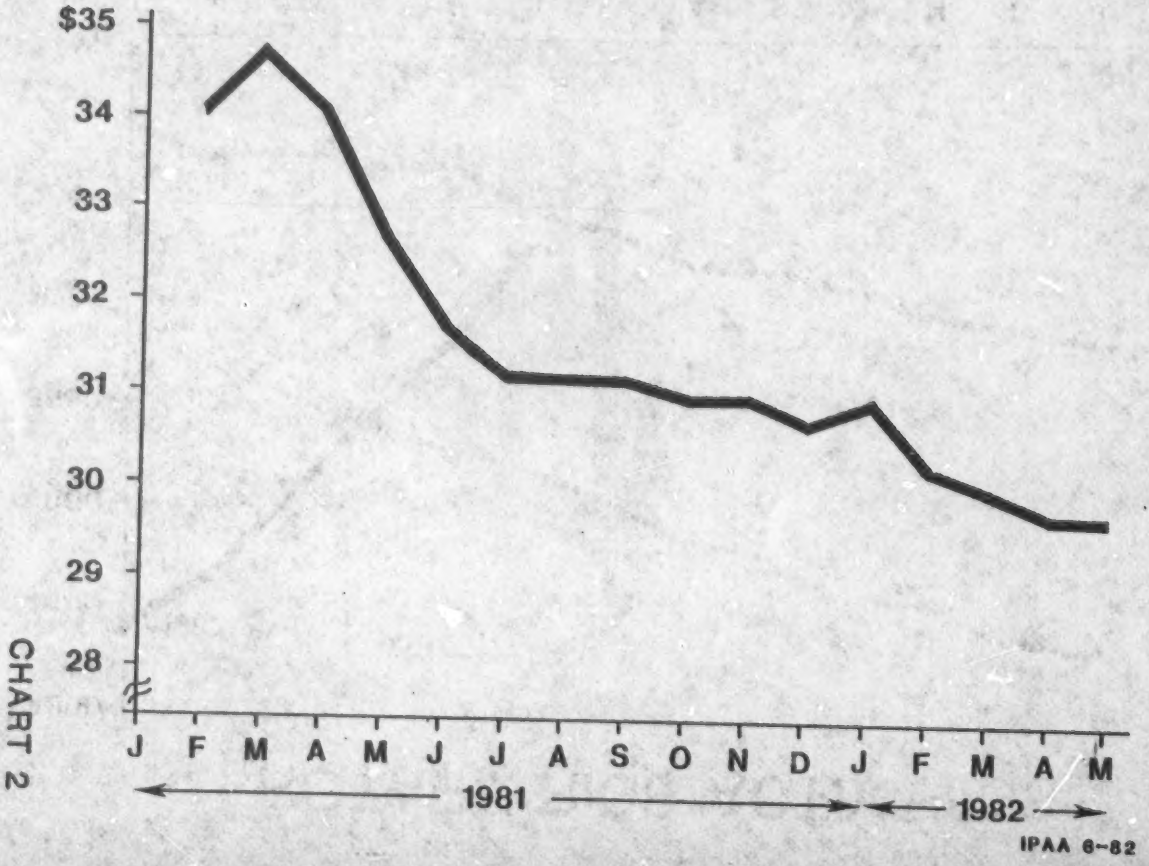

CHART 2

EMPLOYMENT ON RIGS

CHART 3

INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA

1101 SIXTEENTH ST., N.W.
WASHINGTON, D. C. 20036
[illegible]

ALTERNATIVE MINIMUM TAX
APPLIED TO INTANGIBLE DRILLING COSTS

The present financial condition of the domestic exploration-production industry is extremely precarious. Fifteen hundred rigs stacked, 40,000 unemployed, outside investor capital reduced almost 50%, and annual cash flow from petroleum liquids reduced by $15 billion -- all since January 1st. Any additional negative tax change for the petroleum industry will devastate this already crippled industry.

The domestic petroleum industry, and especially independent producers, are already paying more than their fair share of the tax burden. It is grossly inequitable for the Administration to give no consideration to the extremely burdensome windfall profit tax which was piled on top of the other negative tax changes for which the industry has been singled out since 1969. During the same time frame, most other industries were given new tax incentives. The petroleum industry would be subjected to the minimum tax to the same extent as all other industries for all preference items except IDC and percentage depletion, and only the petroleum industry would pay the additional burden for these two items.

The impact on exploration and drilling would be significantly greater than the number of dollars of estimated tax liability. After a company has passed the minimum tax threshold, its impact significantly reduces the rate of return on drilling prospects making many unacceptable. Accordingly, the full cost of drilling all but the most profitable prospects would be

shifted to other investment. Because most reserve additions and new daily production result from completion of "average" and "marginal" prospects rather than the few super prospects which bring on giant new fields, the impact on reserve additions and future production would be significantly magnified. The impact on import depencence and national security are obvious.

IDC is the single largest element of expenditures for the petroleum exploration-producing industry. IDC is 40% of total outlays for exploration and development, excluding lease bonus payments for offshore federal lands. Together with dry hole cost (IDC on unsuccessful wells) IDC accounts for 65% of expenditures annually.

IDC represents about 70% of the total cost of drilling and equipping a successful well for production. The remaining 30% is for tangible equipment which is capitalized.

Under present law each dollar expended for IDC reduces taxable income, thereby reducing tax liability. Under the Administration's CMT, once the threshold is reached whereby the taxpayer is subject to the CMT, each one dollar expended for IDC increases "minimum taxable income" thereby increasing tax liability.

To the extent the expenditure for IDC is made, CMT will affect decisions to either complete as a producing well or abandon as a dry hole those wells which, if completed, will be only marginal producers. This results from the fact that under present law both dry hole costs and IDC are currently expensed, therefore a well will be completed to produce if anticipated production will recover the cost of completion (usually about 30% of total cost). If IDC's are not expensed or are subject to a 15% tax, the marginal well must recover both the completion cost and the 15% minimum tax on IDC (and 15% of percentage depletion if applicable). A significant number of new wells completed each year are economically marginal from the beginning. With crude oil prices declining -- about 25% below one year ago -- the tax treatment of IDC and percentage depletion will be of greater importance.

The probable effect of the CMT on expenditures for IDC is demonstrated by the following example. The computations have been made on actual 1981 results of an incorporated Texas independent producer and compare the application of 1981 tax law to the result of applying the proposed CMT to the same operator.

Similar comparisons have been made for independent producers both larger and smaller than the example. The test cases were made by all of the "big eight" national tax-accounting firms and by private firms specializing in petroleum tax-accounting. They have uniformly reported that it is their opinion that application of the proposed alternative minimum tax would in most cases result in reduction of expenditures for exploration and drilling in the range of 30 to 40%. One of the largest independents reviewed its 1982 drilling prospects and concluded the tax would cause a reduction of 48% in their drilling expenditures. The key factors are:

1. Each well drilled is a unique entity -- a separate financial decision or "profit center" -- not a homogeneous part of an annual or total drilling program.
2. Once the minimum tax threshold is reached, impact of the tax reduces significantly the rate of return of each additional well drilled.
3. High risk: Investment in any particular well, whether exploratory or development, carries a significant risk of total loss of investment.
4. Availability of alternative investment: Notwithstanding present economic conditions there are other investment opportunities with little or no risk which almost guarantee a higher rate of return than the typical drilling prospect with the minimum tax applied.

TAX COMPUTATION ON 1981 ACTUAL RESULTS - EXISTING LAW

Income before IDC expenditure	$879,040
IDC deduction	740,456
Taxable income	$138,584
Income tax	$ 44,498
Less investment tax credit (for tangible equipment)	30,574
Net income tax	$ 13,924

TAX COMPUTATION ON 1981 ACTUAL RESULTS - PROPOSED LEGISLATION

Taxable income per above	$138,584
Add back IDC deduction	740,456
Alternative taxable income	$879,040
Alternative minimum tax at 15%	$131,856
Increase in tax burden ($131,856 - $13,924)	$117,932

Effectively, the expenditure of $256,374 in IDC would result in no positive income tax benefit, but instead create $117,932 of additional tax liability (256,374 x .46 = 117,932). Because of the factors described above, the probable results would be:

Income before IDC expenditure	$879,040
IDC deduction (740,456 - 256,374)	484,082
Taxable income	$394,958
Income tax	$162,430.68
Less investment tax credit	30,574.00
Net Income Tax	$131,856.68
Reduction in IDC expended	34.6%

IDC equals 70% of the total cost of drilling and equipping a successful well. Therefore, the $256,374 IDC not expended represents total drilling and completion costs of $366,249. Consequently, the potential additional tax liability of $117,932 causes lost investment of at least $366,249.

To estimate total impact it is necessary to separate expenditures between the major integrated companies and independents. Eliminating expenditures of the non-corporate independents (including public drilling funds) leaves approximately 25% of such expenditures by corporate independents. The results are:

	Actual E&D expenditures (millions of $)	AMT Applied Projected E&D expenditures
Majors	$27,500	$21,150
Corporate independents	$ 5,625	$ 3,940
Total corporate	$33,125	$25,090

If, as proposed by Senator Dole, this is expanded to all taxpayers the total industry results would be:

Total industry	$50,000	$35,000
Total wells drilled	80,537	56,360

It is significant that subjecting intangible drilling costs to negative tax treatment will impact most heavily on newer, and the more aggressive companies actively engaged in development of new oil and gas reserves, in contrast to less aggressive companies which are producing existing reserves. New entrants into the exploration-development industry are critical to our continued progress toward energy independence. For many years the ratio of successful well completions has averaged 6.8 per active operator. Consequently, the significant increase in number of successful well completions is directly related to the increase in active operators of record: i.e., the number of new entrants into the business. The number of operators of record increased from 4,793 in 1974 to an estimated 9,600 in 1981.

As in the past, if IDC is subjected to additional negative tax treatment, exploratory drilling likely would be impacted much more severely than development drilling. Producers are contractually obligated to owners of the mineral interest (royalty owners) to fully develop a lease once a successful discovery has occurred. Consequently, there is less discretion in drilling of development wells than exploratory wells.

STATEMENT OF CARL E. BAGGE, PRESIDENT, NATIONAL COAL ASSOCIATION, WASHINGTON, D.C.

Senator WALLOP. Mr. Bagge.

Mr. BAGGE. Thank you, Mr. Chairman. My name is Carl Bagge. I represent the coal industry on this occasion. I have a formal statement which is intended to be responsive to the committee's inquiry. And I will summarize briefly the contents of that statement.

Mr. Chairman, the coal industry is strongly opposed to any new taxes on coal production and use. The coal industry's opposition to energy taxes generally is grounded on the firm belief that this country cannot tax itself out of a recession. We cannot and must not continue the taxing and spending cycle. Over time, taxing and spending has eroded the productivity of our work force, reduced capital investments and new plant equipment, increased inflation, and led to higher Federal deficits.

The only acceptable option is for the Congress to get Federal spending under control while the economy continues to take advantage of last year's tax bill as a means to stimulate industrial and, therefore, all economic growth.

The coal industry is no less affected by the current recession than other industries. And our companies and workers are anxious for an economic revival. And yet our anxiety is tempered by realism. We know that it will take a sustained effort on the part of the Congress to demonstrate that the taxing and spending cycle is ending. And that the Federal Government intends to live within its means.

President Reagan in his state of the industry address put it this way. "Higher taxes," he said, "would not mean lower deficits. It will encourage more Government spending and less private investment, slow economic growth and destroy future jobs."

Mr. Chairman, our opposition to energy taxes is also strong because of the adverse effects on the coal industry, as I explain in more detail in the formal statement submitted for the record. The most often discussed taxes, the Btu tax and an ad valorem tax, would be particularly damaging to the Nation's coal industry. For example, higher energy taxes inevitably mean higher coal prices paid by consumers. Any appreciable increase in coal prices in international markets will reduce or end America's coal competitiveness with OPEC oil, with Soviet natural gas, and put the United States in a disadvantageous marketing position with other coal producing nations, such as South Africa, Australia, and Poland.

What is more, American coal is expected to be this Nation's largest export commodity by the end of this century. By arbitrarily reducing our coal export markets, the United States is foreclosing an opportunity to increase our balance of trade by billions of dollars, present and future.

Since a Btu tax would increase the price of coal more than oil and gas, its effects are disproportionate where coal competes directly with oil and gas, such as in the electric utility market. Electric utilities use more than 80 percent of all domestic coal. And it's electricity, not coal, that competes directly with oil and gas outside utility markets. And because electric utility plants are roughly half as efficient as direct oil or gas use, the difference would impose a

much higher tax on electricity, and, therefore, on electric utility consumers.

An ad valorem tax might well avoid some of the more extreme effects on coal, such as the export market. But the ad valorem tax and the Btu tax both work to promote the use of oil and gas, fuels at higher cost and in shorter supplies.

This, clearly, is contrary to the national economic and energy interest. And, indeed, the policies we have been pursuing since the OPEC embargo. And bearing in mind the painful energy and economic lessons of the past decade, discouraging more coal use is precisely the opposite course this country should be following.

In sum, Mr. Chairman, and more broadly speaking, the position of the coal industry is that tax increases with perverse energy policy implications simply postpone the day of reckoning at the expense of national economic growth.

Thank you.

Senator WALLOP. Thank you, very much, Mr. Bagge.

[The prepared statement of R. E. Samples follows:]

STATEMENT OF R.E. SAMPLES, CHAIRMAN OF THE BOARD OF DIRECTORS, NATIONAL COAL ASSOCIATION

Mr. Chairman, my name is R.E. Samples. I am chairman and chief executive officer of Consolidation Coal Company. I also serve as chairman of the board of directors of the National Coal Association. NCA respresents coal producers, coal sellers, and other organizations associated with the coal industry. Today I am speaking on behalf of NCA.

It will come as no surprise to you, Mr. Chairman, that the National Coal Association is unalterably opposed to any form of tax on either energy production or consumption. We believe, as do others, that the correct course of action is for Congress and the Administration to face up squarely to its responsibility of reducing Federal expenditures to bring them roughly in line with projected revenues under the tax reduction act that Congress so recently enacted. Last year's tax act was an explicit recognition by Congress that tax policy in this country over the last several years was causing disasterous impacts on productivity, including decisions to invest in long term capital improvements, significantly reducing savings rates and leading to a general contempt by the public for the entire tax system.

At the same time the tax system was netting real increases in resources to the Federal treasury, the government embarked on a course of spending that guaranteed a continually rising share of government spending -- and borrowing -- of net national income. The automatic entitlements, and the Congressional budget process of voting for each governmental program separately and then adding up the sums voted, combined with progressive tax rates allowed the share of Federal activity in the economy to grow continuously, directly causing artificially high interest rates, sluggish economic performance and an unavoidable bout with recession after recession.

Mr. Chairman, the U.S. economy simply will not respond without a fundamental change in the way the government handles its taxing and spending responsibilities. The subject today is energy taxes. Such taxes are simply another source of revenue -- and a rather large one -- that allows the government to continue dispensing largess to politically skillful and powerful groups of voters. Congress began the painful process of reducing tax burdens and the size of government last year. The economy, however, is not that forgiving. It will take a sustained effort on the part of Congress to demonstrate to the financial markets, and ultimately the public, that the size of government will not continue to grow. I believe President Reagan was entirely correct when he said in his State of the Union Message, "Higher taxes would not mean lower deficits ... It will encourage more government spending and less private investment. Raising taxes will slow economic growth, reduce production and destroy future jobs."

Turning specifically to energy taxes, two forms of an energy tax have been discussed which would impact on the coal industry: a tax based on Btu and an ad valorem tax. Presumably both would be broad-based, applying to all forms of energy sources. Such a tax would have far-reaching adverse effects on the nation's economy.

First, it would be inflationary since ultimately the tax would be passed on to the consuming public. Further, while raising revenues it would contribute to the deficit, since increased prices created by inflation would boost the cost of entitlement programs.

Second, it would inhibit whatever hope exists for economic recovery in the near future. Mr. Chairman, others appearing today perhaps can give you precise estimates of the economic impact of these taxes. I can tell you in real terms how this recession is affecting the coal industry in terms of mine closings, indefinite layoffs, lost wages, postponement of productivity-improving investments, and lost profits necessary to sustain a viable source of energy supply over the long run.

Finally, an energy tax would further reduce the competitiveness of energy intenstive U.S. industries in the struggle for international markets.

In addition to the broad adverse economic effects a Btu or ad valorem tax would have on the nation, the impact on the coal industry, already depressed, would be disasterous.

Presumably, with respect to fossil fuels, a Btu tax would be assessed at the mine-mouth or well-head. A figure often heard discussed is $2.00 per barrel with respect to oil. Since a ton of coal equates to about four barrels of oil, the tax on a ton of coal would be $8.00. How would that impact on the coal industry?

First consider our rapidly expanding Export Market:

An $8.00 increase in the price of a ton of coal would literally kill the coal export market. This would occur at a time when the market is very soft and when we are competing with countries such as Poland, which are dumping coal on the market at a loss. A substantial tax increase coupled with our increasing mine-to-port transportation costs due to rail rate increases could reduce exports by half and result in about a three billion dollar reduction on the plus side of our balance of payments. Apart from losing the existing and expanding U.S. coal export market, national security impacts would result by preventing U.S. coal from substituting for mid-east oil world-wide, Russian gas in Europe and oil in the Pacific Rim countries.

Second, the Differential Price Impacts on coal are severe. A uniform Btu tax raises the price of coal more than oil or natural gas. For instance, a $2.00 tax on a $30.00 barrel of oil is a 6 percent increase. An $8.00 tax on a ton of $30.00 coal is a 27 percent increase. Although the absolute price differential

is roughly maintained, the relative attractiveness of coal conversion and early retirement of oil and gas fired units would be greatly diminished. From an energy policy perspective, the Btu tax discourages consumption of domestic coal as opposed to imported oil. This is clearly not in the national interest and is directly counter to legislation dating back to 1974 to encourage coal consumption.

Third, End-Use Impacts of a Btu tax on coal are disproportionate. Electric utilities account for over 80 percent of domestic coal consumption. Therefore, it is electricity and not coal that competes directly with oil and gas in the non-utility markets. Coal utility plants have on the average a 34 percent conversion efficiency, whereas oil and gas have over 60 percent efficiency. Consequently, this efficiency differential at end-use could impose a much larger tax on coal than on oil and gas.

The other broad-based energy tax discussed is an ad valorem tax on all fuels, presumably an equal percentage tax, collected by the producer. Although this tax could avoid some of the more extreme impacts on exports of a Btu tax (e.g., a 5 percent across-the-board ad valorem tax only raises $30.00 coal about $1.50) it too discourages consumption of domestic coal making it less competitive with other fuels. Ad valorem taxes tend to be permanent taxes, automatically raising with the rate of inflation and real cost of delivering coal.

In conclusion, let me reiterate that the National Coal Association is unalterably opposed to any form of energy tax.

Thank you.

Senator WALLOP. Senator Bentsen.

Senator BENTSEN. No questions.

Senator WALLOP. Senator Dole.

Senator DOLE. Thank you, Mr. Chairman. As I said earlier, it seems to me that we can probably raise the revenue without any new energy tax. I think one thing that we have looked at as inflation has gone down has been the moderation in the prices of energy. And now we are back on the upswing again as far as domestic price at the pumps. The price has risen anywhere from $0.10 to $0.20 a gallon. And I know that in the past several months, there has been half a dozen different energy taxes considered—ad valorem, Btu, oil import fee, excise tax on domestic and foreign production. And there still may be the necessity for adding an energy tax of some kind to a revenue package. But it's my view—and I am only one member of the committee. I can't say what would happen. But it seems to me that there are enough other options that we can address on the revenue side to avoid an energy tax. Now that may not be the will of the committee. It may not be the will of the administration.

But having said that, I think we have another area to address, and that is whether or not the President's proposed minimum tax can be modified in a way that will not do violence to the industry and still raise some revenue.

I am going to go from here to a food stamp hearing. We are dealing with truly needy people in that hearing. And we are cutting benefits. At this hearing, we are trying to figure out how we can get the people at the other end of the spectrum to contribute to economic recovery. And it's not going to be easy. I have already discovered it is easier to give it away than it is to collect it. Last year it was easy on how much could you give away. And we gave away quite a bit, $750 billion. So we are just trying to collect $100 billion. And everybody ought to be willing to put a little in the hat.

I don't expect people to come here to volunteer. I haven't had a single person volunteer to have their taxes increased, not even Members of Congress, since I have been the chairman. [Laughter.]

But I think the key is to get a budget resolution. I would hope that we can have the help of Mr. Vinson's group in supporting a budget on the House side even though it might mean that your members might pay some additional revenue. Don't you want to balance the budget, lower interest rates, and put people back to work?

Mr. VINSON. Yes, sir.

Senator DOLE. Well, are you going to support a budget resolution?

Mr. VINSON. Well, the only proposals that we are acquainted with, sir, would take another $20 to $30 billion out of our industry. And we are just saying at this particular moment, we are in dire straits. We don't think it is in the Nation's interest at this moment to extract another $20 or $30 billion out of an industry which has already been pegged to give up $227 billion over a 10-year period. It is going to reduce the ability to explore for oil. It is going to increase our reliance on Arab sources of oil.

Senator DOLE. But the budget resolution is not a legislative document. It's a budget resolution. It is not legislation that says what

tax there will be or what revenues will be increased. The President proposed $49 billion in revenue increases. We are looking at $101 billion. If you count user fees, $107 billion.

And we are doing that without going back into last year's act except in a couple of areas. And there maybe minimumly. So we are not trying to undo the President's package. We are trying to save the third year for the working men and women.

We are looking at areas that we think should be addressed. And one is the minimum tax. Everybody ought to be able to contribute something to recovery in this country, the rich as well as the poor. And that's where we seem to have a difference of opinion. And maybe, as pointed out by Senator Nickles and certainly others—Senator Bentsen and Senator Wallop and others, and all of us who come from oil producing States are suspects so don't misunderstand me—there may be another way to do it. But I would hope that you will cooperate with us in trying to find a way to right the economy. And you can't do that if you are going to oppose any budget because it might affect the industry. If we don't do anything, it might affect the industry too. I don't know why you don't get with it, and get your members turned loose over on the House side and try to help us get a budget resolution.

Mr. BAGGE. Mr. Chairman, I would like coal to look a little respectable at this hearing in terms of your plea for cooperation. Just for the record permit me to point out that we did advocate a doubling of the black lung tax. This committee was helpful in achieving that objective. We volunteered and initiated a proposal for doubling the black lung tax only in the last 6 months so that the taxpayers of this country wouldn't be paying a $1 billion a year from the general fund to subsidize a program of industrial disease in the coal industry.

Senator DOLE. I'm aware of that bill. It seems like there was a members' deduction added onto that.

Mr. BAGGE. There was. And a number of other things. [Laughter.]

But our hearts were pure when we proposed the bill. [Laughter.]

Senator DOLE. Well, our hearts are pure, but I know that prevented a signing ceremony. [Laughter.]

Right now, I would just like to see if Mr. Vinson can't help us here a little bit in the next few days. I mean can IPAA indicate they are going to try to help get a budget resolution passed?

Mr. VINSON. Well, I don't know of any statements that we made in public on taking a position on any of the budget proposals. I know we have talked to some of the staff members and examined the impact on our industry.

Senator DOLE. I don't suggest you ought to come in here and say we would like to pay more or we would like to have it just like this. But I know for a fact that you probably don't want a budget resolution. You think without a budget resolution, there won't be any chance for any tax that might impact on your industry.

Mr. VINSON. May I clarify that, to my knowledge, the IPAA has not taken a position——

Senator DOLE. Well, why don't you take a position for a budget resolution?

Mr. VINSON. We have not taken a position to say what you are saying. And that is, that we are opposed to the passing of a budget. That is obviously not in the Nation's interest, and we have not taken that position, Senator.

Senator DOLE. I just wish you would do something positive. Well, I don't want to quarrel with you about it because you probably may not have made the decision.

But I do know that there was a refusal to assist on the budget. And it would seem to me to be in the interest of all of us to try to get something done. We are the authorizing committee. And there will be votes on taxes in this committee. If we don't get a budget resolution, we will just have to put it on the debt ceiling. That is one thing that is probably going to come whether IPAA is for it or against it. We have got to increase the debt ceiling in the next 20 or 30 days.

Senator WALLOP. Senator Nickles.

Senator NICKLES. No questions.

Senator WALLOP. Senator Durenberger.

Senator DURENBERGER. No questions.

Senator WALLOP. I'd just ask each 3 of you if you could generally characterize—and I know that is difficult—the profits of your industries as you represent them. Over the past year. Down, up. Down by 20 percent, 50 percent. Up by 10 percent.

Mr. DIBONA. The profitability of the petroleum industry, generally, as represented principally by the companies that make public reports, and we collect those reports, indicates a drop of about 30–35 percent in the profits of the industry, in the first quarter of this year. That put the profitability of petroleum at slightly over 1 percent of all other industry in the United States, but heading down at a much more rapid rate than other industry.

Over the course of the past decade the average, including those years, has been within 1 percent of the all-industry average in the United States, and generally below that of the other high-risk industries in the United States. The 30 percent is the quarter-to-quarter figure, the first quarter to first quarter.

Senator WALLOP. Mr. Vinson.

Mr. VINSON. Very few of the independents issue public statements. Some do. Their net income is down. The first chart on crude oil prices gives a dramatic illustration of what we are going through so far this year. In my own company's case, our net taxable income, which starts out with the price of the crude oil, is down about 50-percent. So somewhere between the 35 percent of the major oil companies, and the 50 percent range would probably be a range I would be comfortable with. Some are going out of business.

Senator WALLOP. Mr. Bagge.

Mr. BAGGE. With 3,000 economic entities in this country that we call the American Coal Industry, it is very difficult to get a handle on that figure. But the latest thing that I have seen from D. & B. on it—at least the largest section of that industry—is a decline in the level of profitability by 30–35 percent in this year.

But, however, let me say that statistically, the decline in our export market overseas and the decline in domestic steel consumption and utility consumption hasn't shown up statistically as yet. It

will show up later in the third and fourth quarter of this year. And it will be a decline even beyond that which we have experienced this year. So in sum, the coal industry, in spite of all the warm rhetoric that we have received from our Government since 1973 and the oil embargo, is, in short, a disaster.

Senator WALLOP. Is the decline in exports attributable to worldwide recession or some other thing?

Mr. BAGGE. In part, it's worldwide recession. In part, it's the resurgence again at the bayonet points of the Polish coal. It's the decline in the world gold price by South Africa trying to pump all the coal for export it can through South Africa; selling it below cost. The Poles are seeking hard currency. We can't compete today in Rotterdam with the Polish coal that is produced. Notwithstanding John L. Lewis' statement, that you can't mine coal with bayonets, they are doing it effectively in Poland today. And we can't compete with that price.

Now that's not showing up statistically and won't until the fall. But our great dream of a tremendous export market is being really shaken at the present time. And, of course, our general decline in steel, automobiles, and building has impacted in our steel market and in the industrial market, and, indeed, in the utility market. So, in short, it's not the great bonanza that we all had hoped it would be just a year ago.

Senator WALLOP. I gather that in your statements you deal specifically with the various questions that were asked in the calls for the hearing.

Mr. BAGGE. I've attempted to.

Senator WALLOP. I appreciate very much your presence here this afternoon. Thank you.

Mr. BAGGE. Thank you very much.

Senator WALLOP. This other panel consists of Mr. Michael Baly, vice president, government relations, American Gas Association; Mr. Jack Blum, representing Independent Fuel Terminal Operators Association and National Oil Jobbers Council; Mr. Arthur Seder, chairman of the board and chief executive officer, American Natural Resources Co., Michigan Wisconsin Pipeline Co. on behalf of Interstate Natural Gas Association of America.

I will just say before you begin that it was reported about 2 weeks ago in the financial pages of the Washington Post that their profits for this year were up 181 percent. I saw no great call for a windfall profit tax on press profits.

STATEMENT OF MICHAEL BALY III, VICE PRESIDENT, GOVERNMENT RELATIONS, AMERICAN GAS ASSOCIATION, ARLINGTON, VA.

Senator WALLOP. Mr. Baly.

Mr. BALY. Thank you, Mr. Chairman. I am Mike Baly, vice president of government relations for the American Gas Association, a national trade association of nearly 300 natural gas transmission and distribution companies serving 160 million consumers in all 50 States. I request that my prepared text be submitted for the record.

Like most business organizations, AGA does not favor new taxes, and we are concerned with any tax which increases the cost of

energy to U.S. industry and consumers. We recognize the current budget deficit is a pressure to increase taxes facing the Congress. As it becomes increasingly apparent that an energy tax might be included in the revenue increase proposal, we believe that an oil import fee is the most justifiable alternative of the energy tax options considered from the standpoint of a sound energy policy, national economic recovery, consumer equity and our Nation's energy self-sufficiency goals.

A $5 per barrel oil import fee would raise net revenues of between $12.5 and $15 billion in fiscal year 1983, and self-liquidate as oil imports decline over time, thus being the most avoidable energy tax. An across-the-board tax or other taxes, we believe, are likely to become a permanent albatross for U.S. industry and energy consumers.

Industrial oil use has dropped 20 percent over the last 2 years. U.S. oil imports increased 50 percent in the midseventies due to switching from gas to oil because of gas shortages due to Federal wellhead price controls. We believe that the supply picture now has, in fact, been corrected.

An oil import fee would exert downward pressure on the price of world oil. An oil import fee would enhance the competitiveness and, therefore, the development of domestic energy sources—oil, gas, coal, uranium, hydro, and renewable resources.

A $5 fee would balance the unequal tax burden on domestic crude oil which is currently burdened with a $6.50 per barrel windfall profit tax on average. An oil import fee would reduce our Nation's balance of trade deficit. An oil import fee, Mr. Chairman, would help offset the current hidden cost of our Nation's reliance on foreign oil. Estimates of these hidden costs range from $2 to $124 per barrel, and includes such costs as filling, maintaining, and protecting our strategic petroleum reserve and the defense expenditures required to safeguard the oil import structure.

An oil import fee could reduce the threat of and potential for another oil supply disruption. On your request to look at options as regards consumer equity, an across-the-board energy tax would be a more regressive tax than an oil import fee. An oil import fee would be the least regressive because of the patterns in which oil use as opposed to all energy use occur across income levels.

In fact, an across-the-board energy tax would have a disproportionately greater impact on low income groups than would an oil import fee.

Notice figure 1, Mr. Chairman, of my prepared testimony. The lower 10 percent of U.S. wage earners would pay 16 percent of an oil import fee. In contrast, this same lower 10 percent of wage earners would pay 19 percent of an across-the-board energy tax. Also, oil now ranks third in home heating use, representing less than 18 percent of the homes in the United States, and only 2 percent of new homes in 1981.

In order to ease the impact of an oil import fee on low income consumers, AGA has long supported the full funding of the low and fixed income energy assistance program enacted in the Crude Oil Windfall Profit Tax Act of 1980. This program should be funded at the original $3 billion level.

Regarding economic impacts on industry, an oil import fee compared to an across-the-board energy tax would have a substantially lesser impact on industry and electric utilities since oil plays a decreasing role in these sectors.

Since fuel oil and oil based feedstocks account for only 2 percent of the total industrial cost, the overall cost of an import fee to manufacturers would be small, and would not cause a substantial adverse effect on their competitive position internationally.

On electric generation, only 8 percent of the energy consumed for this purpose in 1981 was oil, and this is dropping rapidly. Therefore, an oil import fee would have a much smaller impact than an across-the-board energy tax because the across-the-board tax would burden all major fuels used to generate electricity. In fact, compared with coal, gas, hydro, and nuclear, oil ranks fifth among fuels generating electricity.

The regulated gas utility industry is an extremely capital-intensive industry. We worked with you on the ERTA because no industry, we feel, was hurt more by inflation than ours. We can talk about wellhead decontrol, but the pipeline and utility industry will still be regulated.

In closing, we believe to choose any energy tax alternative other than an oil import fee would virtually abandon achievement of all of the nonfiscal objectives I have discussed, including enhancing development of our domestic resources, encouraging our national energy independence, and reducing the danger and vulnerability of foreign oil supply disruptions.

Thank you, Mr. Chairman. I will be pleased to answer any questions you have.

[The prepared statement of Michael Baly III follows:]

TESTIMONY OF

MICHAEL BALY III

VICE PRESIDENT, GOVERNMENT RELATIONS

AMERICAN GAS ASSOCIATION

BEFORE THE

SUBCOMMITTEE ON ENERGY AND AGRICULTURAL TAXATION

SENATE COMMITTEE ON FINANCE

JUNE 9, 1982

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Introduction

My name is Michael Baly III, Vice President, Government Relations of the American Gas Association. I am grateful for this opportunity to testify on the subject of energy taxes. The American Gas Association (A.G.A) is a national trade association comprised of nearly 300 natural gas transmission and distribution companies serving approximately 160,000,000 consumers in all 50 states. A.G.A. member companies account for about 85% of all the annual gas utility sales in our nation. Also, 55% of our nation's residences are heated by natural gas.

A.G.A. recognizes the current difficulties which Congress and the Administration face with the FY 83 federal budget deficit estimates. There has been much discussion regarding the imposition of an energy tax to serve as a revenue mechanism to help reduce the budget deficit. A.G.A. has long maintained that the energy producing private sector of our economy should be free of restrictive and non-productive taxes which frustrate energy development and plant expansion by diverting growth capital. We believe, however, that, if there is to be an energy tax, an import fee on foreign oil is

the most justifiable alternative from the standpoint of sound energy policy, the national economy, consumer equity, and our nation's energy self-sufficiency goals.

It is clear to most observers that a significant amount of the revenue needed to close the budget deficit could be raised from any one of a variety of energy tax proposals, including all of those which the subcommittee has identified as the subject of this hearing. A.G.A. is of the opinion, however, that, in addition to raising revenue, the best energy tax option is one that would help to accomplish several imperative national energy and economic goals. An oil import fee can achieve these results and, in summary, the non-fiscal goals that can be accomplished are as follows:

- An oil import fee would, from the first year it is imposed, begin exerting pressure on the world price of OPEC oil by reducing demand for foreign oil through conservation and fuel conversion.
- An oil import fee would enhance the competitiveness of domestic energy sources and, thereby, promote domestic energy production and development and, in the long-term, energy independence.
- An import fee would help defray -- although it would not eliminate -- the current "hidden costs" of our nation's dependence on oil imports, i.e.,
  -- the costly filling, maintenance and protection of the Strategic Petroleum Reserve and,

-- the defense expenditures required to safeguard our access to oil imports, such as establishment and maintenance of a Rapid Deployment Force and protection of oceanshipping lanes.

- An oil import fee would help reduce the tax advantage enjoyed by foreign oil relative to domestic oil since the latter is subject to the windfall profit tax.
- An oil import fee would generate needed revenues quickly in the short-term and would tend to be self-liquidating over time as oil imports decline.
- An oil import fee, by reducing oil imports, would also help reduce our nation's balance of trade deficit.
- An oil import fee would be less burdensome to administer relative to other energy taxes.

I will discuss these very important attributes of an oil import fee in greater detail.

FEDERAL REVENUE IMPACTS

A.G.A. estimates that the total gross revenue effect on the federal budget of a $5.00 per barrel oil import fee would be approximately $16 to $20 billion in 1983. Approximately $8 billion would come directly from the oil import fee, while the U.S. Treasury would receive an additional $8 to $12 billion from the crude oil windfall profit tax proceeds and from increased corporate income taxes on domestic oil producers. This additional $8 to 12 billion results from the fact that the price of decontrolled domestic oil could be expected to increase between $3.50 to $5.00 per barrel depending primarily on the reaction of OPEC prices to the oil import fee.

Of course, there are certain indirect impacts of an oil import fee which could very well affect federal revenues. These include a part of the increased oil cost to industry being passed on to consumers or being totally absorbed by this sector. An estimated $3.6 to $5 billion would be lost to the Treasury as a result of lower tax revenues from corporate profit reductions if the increased oil costs were totally absorbed by industry. The net revenue effect on the federal budget, therefore, is estimated to be between $12.4 and $15.0 billion. It should also be noted, however, that, in the long-term lower federal deficits resulting from the revenue achieved from an oil import fee could allow interest rates to decline thus stimulating our nation's economic growth.

In its own analysis of the revenue impacts of a $5.00 per barrel oil import fee, the Congressional Budget Office (CBO) estimates that the fee would gross approximately $17.3 billion in new revenues.*/ The CBO study also recognizes offsets elsewhere in the economy and estimates that the net effect of the fee would reduce the federal deficit by $10 to $14 billion in fiscal year 1983.

The Energy Crisis is Not Over

The cost of U.S. dependence on imported oil is staggering. Since the 1973-1974 Arab oil embargo, $400 billion (approximately $2000 per American citizen) have flowed out of the United States to pay for imported oil. These payments have had the regrettable effect of increasing our balance of trade deficit, fueling inflation,

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*/Oil Import Tariffs: Alternative Scenarios and Their Effects, The Congress of the United States, Congressional Budget Office; April, 1982.

putting pressure on money supply while reducing the growth potential of our domestic economy. Indeed, even with our recent reduction of oil imports from over 8 million barrels per day to about 5 million barrels per day, the U.S. nevertheless remains vulnerable to oil supply disruptions. A.G.A. has estimated that an interruption of all in Persian Gulf oil supplies could, in the first year alone, cost the U.S. $350 billion in GNP and 8.6 million jobs.*/ This ever-present risk increases our national security costs (such as the $2.3 billion budgeted for FY 83 to fill the Strategic Petroleum Reserve and the costly development and maintenance of a Rapid Deployment Force.) Moreover, there is also the attendant risk of substantial and sudden economic disruption through the threat of another embargo.

For these reasons, the true cost of imported oil is far greater than the OPEC price of $34 per barrel. In fact, the American Petroleum Institute estimates that the "most probable range" of an oil import premium (i.e., the economic penalty to the nation of our overuse of imported oil not reflected in its market price) lies somewhere between $5 and $30 per barrel. This is comparable to the conclusion of Stanford University's Energy Modeling Forum in its World Oil report, that the import premium lies in the range of $9 to $35 per barrel. In addition, the Institute of Gas Technology estimates this premium to be between $46 and $66 per barrel. Under these estimates, therefore, the true cost of a barrel of imported oil may be as high as $64 to $100 due to the additional costs of maintaining and protecting an import

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*/"The Potential Role of Natural Gas in a Major Oil Crisis," American Gas Association, Arlington, Virginia, The Energy Journal, Vol. 3, No. 2, April, 1982.

infrastructure as well as the adverse economic costs to the nation of oil imports. (See Table 1 which is attached for a comparison of a variety of import premium estimates.)

An oil import fee would have a specific benefit for consumers and our nation's economy because many of these "hidden costs" described above could be avoided or defrayed. A.G.A. estimates that U.S. oil imports would decline by about 470,000 barrels per day, about a 10% reduction with a $5 per barrel oil import fee. Three fourths of this reduction would be attributable to oil conservation. In addition, this decrease in U.S. oil imports caused by the import fee could result, in the long run, in a reduction in the cost per barrel of imported oil.

In the short-term, an import fee would obviously make domestic energy sources much more competitive. For domestic oil production, an oil import fee of $5.00 per barrel will nearly create parity in the tax burden on domestic and imported oil. This arises because domestic oil is currently burdened by the Crude Oil Windfall Profit Tax which averages $6.50 per barrel. In addition, A.G.A. believes an oil import fee would help increase production of domestic crude oil, natural gas, coal, uranium, hydro-power and renewable resources. This enhanced development of our domestic energy resources we believe results from the reduced demand for imported oil and an increase in price for domestic oil causing a development incentive for domestic energy as a substitute.

Oil Import Fee vs. "Across-the-Board" Energy Tax: Impact on Consumers

A.G.A. believes that an oil import fee would not have as great an adverse impact on consumers as would an "across-the-board"

energy tax. The latter creates the illusion of being equitable in that it is levied across-the-board on all energy forms. In reality, however, it is wholly a consumer level tax on a necessity of life -- space heating and cooling. Furthermore, because of the way oil use versus all energy use patterns occur across income levels, the results of our preliminary analysis show that an "across-the-board" energy tax would be a far more regressive energy tax than an oil import fee. Natural gas and electricity are necessities of life -- providing heat, hot water, lights, etc. These fuels, which would be subject to an "across-the-board" energy tax, are used relatively equally by wealthy and low-income persons. On the other hand, oil -- which would be subject to an oil import fee -- is used primarily in the transportation sector. In this sector, gasoline consumption is weighted heavily away from the poor and to the wealthy. An "across-the-board" energy tax would fall relatively equally on persons in these income brackets, while an oil import fee would result in the tax being shifted relatively more toward wealthier persons. Therefore, the "across-the-board" energy tax would have a disproportionately greater impact on low-income persons than would an oil import fee. (See Figure 1.)

An oil import fee would have a more limited impact on residential heating and cooling bills, since 1981 data indicate that only 18% of all U.S. homes -- and only 2% of the new homes -- are oil-heated. On a national average basis, A.G.A.'s study indicates that low-income oil heating bills would rise by an estimated $3.75 - $5.25 per month as a result of the oil import fee. This increase would be roughly 70% higher in New England because of colder weather.

Overall, the cost of an oil import fee to the residential sector, in terms of increased heating bills, would be between $1.1 billion and $1.6 billion annually. Low-income home owners who heat with fuel oil, in the aggregate, would have their heating bills increased by between $275 million and $400 million. An "across-the-board" energy tax, however, which is designed to raise the same amount of money as a $5 oil import fee, would increase total residential energy bills almost three times as much to $4.5 billion per year.

In order to ease the impact of an oil import fee on low-income consumers, A.G.A. strongly recommends, and has historically supported, full funding of the low-income energy assistance program enacted in the Crude Oil Windfall Profit Tax Act of 1980. That energy assistance program was originally intended to be funded for one year at $3 billion. This was an adequate level, but unfortunately the program is currently authorized for FY 83 at only $1.875 billion.

Oil Import Fee vs. "Across-The-Board" Energy Tax: Impact on Industry

Compared to an "across-the-board" energy tax, an oil import fee would have a substantially lesser impact on industry and electric utilities since oil plays a decreasing role in these sectors. A $5 per barrel oil import fee would raise the price of oil in the industrial sector (for those continuing to use oil) by an estimated $.60 - $.86 per million Btu in 1983 depending on the extent of the pass-through. These price levels would be 10% to 14% above the price of oil without an import fee. Since fuel oil and oil-based feedstocks account for only about 2% of total U.S.

industrial costs, the overall costs of an import fee to manufacturers would be small, and would not have a substantial adverse impact on their competitiveness in international markets.

Less than 9% of the energy consumed in electricity generation in 1981 was oil. This percentage is dropping rapidly and, therefore, on a national average basis, an oil import fee would have a very minor impact on electricity prices. However, were an energy tax levied all primary energy, the impact on electric generation costs would be four to five times greater than under an oil import fee.

Indeed, this cost impact on industries and electric utilities might be even further limited if current market conditions preclude foreign oil producers and refiners from passing through to customers all, or a great portion of, the cost attributable to an oil import fee. In fact, if OPEC producers cannot cut production enough to maintain the world oil price, then the price would fall and the price for oil paid by the U.S. consumers would rise by less than the full amount of the tariff.

Furthermore, as a result of the projected decline in oil imports due to an oil import fee, that form of energy tax would generate the desired revenues in the early years but would be self-liquidating over time as import levels decline. An "across-the-board" energy tax, on the other hand, would more likely be a permanent tax.

Finally, it is quite clear that an "across-the-board" energy tax would simply not accomplish all of the attendant national energy goals and priorities which an oil import fee would, such as

increasing energy independence, increasing domestic energy production, and reducing the threat of another oil disruption.

Competition Among Fuels

An oil import fee would not cause a substantial increase in the price of non-petroleum domestic energy, in that both natural gas and electricity prices are currently regulated and both coal and natural gas supplies presently exceed demand. In 1985, after new gas deregulation, given the improved gas supply picture, the price of gas should reflect supply and demand factors and not just simply track oil prices as they rise. To some extent this is already occurring as deregulated deep gas prices are falling. In addition, even after decontrol of wellhead gas prices, continued regulation of end user prices will serve as a constraint on the ability of gas prices to "track" oil prices.

Although gas sales would increase as a result of an oil import fee, gas use in industrial applications has been restrained by government restrictions, namely pursuant to the Fuel Use Act and incremental pricing under the Natural Gas Policy Act. Therefore, any price advantage natural gas might achieve as a result of the fee would simply help to offset partially the impact of artificial restrictions on gas marketing, thereby enabling gas to regain some of its industrial market lost to foreign oil during the 1970s when gas supply was dwindling due to gas shortages caused by federal wellhead price controls on natural gas. As a result, oil imports increased by 50%. Now that the gas supply situation has improved demonstrably since enactment of the Natural Gas Policy Act of 1978,

it is only reasonable to permit gas to compete more freely in an effort to increase its industrial market share.

Indeed, an A.G.A. study reveals that there are 4.5 million barrels of oil per day used in non-transportation applications tions that, over time, could technically convert to gas or coal.*/ Given this fact, it is apparent that an oil import fee is the most avoidable form of energy tax while an across-the-board energy tax would be permanent and unavoidable.

This increase in the market share of natural gas is well in the interest of our nation and our economy in light of the fact that gas is a domestic energy resource. Increasing the market share of natural gas would help to create a "demand pull" incentive resulting in increased domestic production of this resource In addition, the long-term benefits of replacing oil use with natural gas and other domestic fuels would include a softening of world oil prices and establishment of enhanced incentives for the production and development of our domestic energy sources.

Conclusion

The regulated gas utility industry is an extremely capital intensive industry and we are very much aware that the cost of capital to the utility industry has increased significantly over the last several years. Therefore, along with Congress, A.G.A. believes that the size of the federal deficit must be reduced in order to allow long-term interest rates to decline, which would help stimulate economic growth.

A.G.A. urges -- that if an energy tax is to be imposed as a revenue raising measure -- such tax should be in the form of an oil

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*/"Recent and Potential Substitution of Gas and Coal in Non-transportation Uses," American Gas Association, Decemoer, 1981.

import fee. An oil import fee is the only one of the energy tax alternatives which is justifiable from the standpoint of sound energy policy, national economic recovery, consumer equity, and our nation's energy self-sufficiency goals. Thank you, Mr. Chairman. I would be pleased to answer any questions you might have.

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Table 1

ESTIMATES OF THE OIL IMPORT PREMIUM
($ per barrel)

	Economic Component	National Security Component	Total[1/]
American Petroleum Institute	-	-	$5-$30
Energy Modeling Forum (Stanford University)	$8-$30[2/]	$1-$5	$9-$35[2/]
Institute of Gas Technology	$30-$57[3/]	$13	$43-$70[3/]
Stobaugh	$34-$124	-	$34-$124
Plummer	$8-$21	$3-$9	$11-$30
Hogan	$1-$28	$1-$20	$2-$40

1/ Components do not sum to totals in some studies.

2/ Higher end of the range represents the median estimated value of actions taken together with the other OECD countries to reduce oil imports.

3/ Range represents cumulative value of import reduction over a three-year period.

Sources: American Petroleum Institute, The Social Costs of Incremental Oil Imports: A Survey and Critique of Present Estimates (Washington, DC, February 1982) page 3.

Energy Modeling Forum, World Oil (Stanford California, February 1982) page 72.

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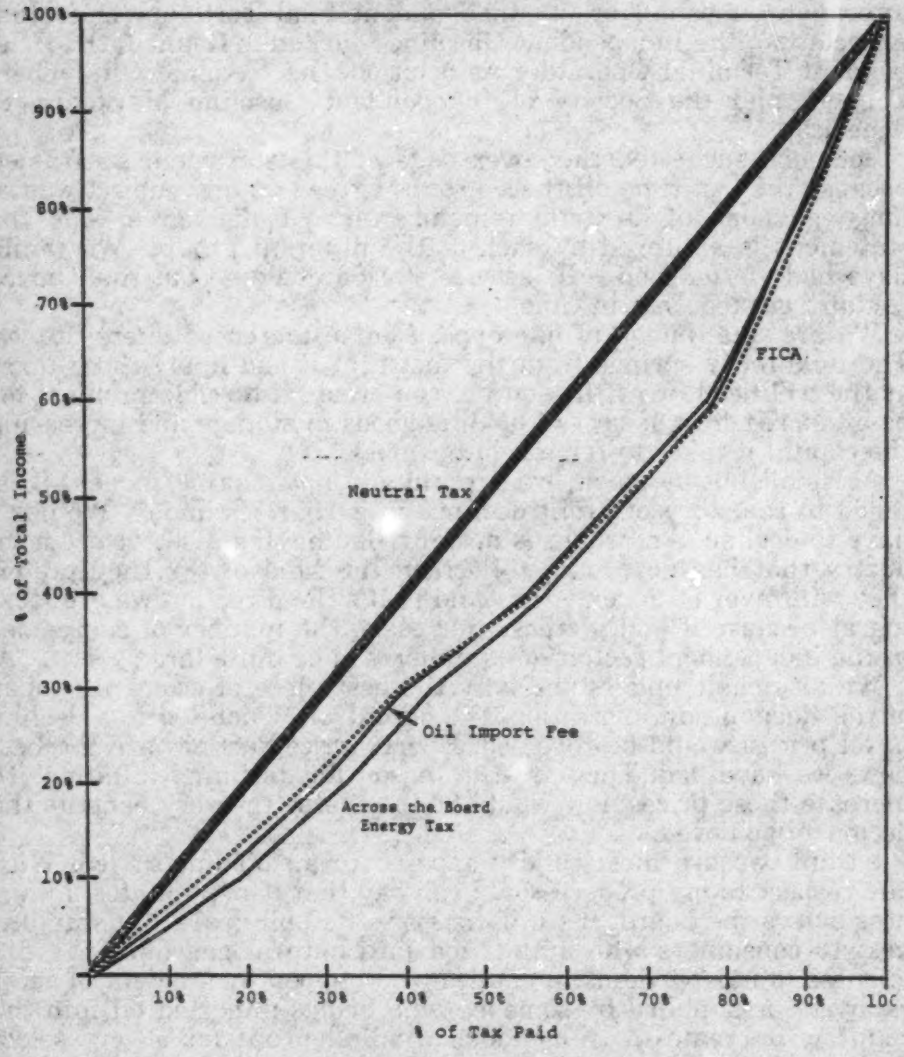
FIGURE 1

COMPARISON OF REGRESSIVITY OF
OIL IMPORT FEE WITH OTHER TAXES



STATEMENT OF JACK BLUM, REPRESENTING INDEPENDENT FUEL TERMINAL OPERATORS ASSOCIATION, AND NATIONAL OIL JOBBERS COUNCIL, WASHINGTON, D.C.

Senator WALLOP. Mr. Blum.

Mr. BLUM. Thank you, Mr. Chairman. I am appearing here this afternoon on behalf of the Independent Fuel Terminal Operators Association, the Independent Gasoline Marketers Council, the Independent Terminal Operators Association, the National Oil Jobbers Council, and the Society of Independent Gasoline Marketers of America.

Someone suggested the cover page of this statement be framed because the last time all these groups agreed on any subject was so long ago none of us could remember it. We did agree. And the statement is approved by each of the different groups. We would have had an addition—the service station dealers—but their board couldn't get together in time.

We are unanimous in our opposition to increased energy taxes. The unanimity springs from the fact that if you apply those taxes at the wellhead or at the source, you create a terrible problem for us by increasing the cost of holding goods in storage and increasing the capital it takes to remain in business.

As small businessmen, we are already not making money. I listened to the story of profit declines in earlier testimony. We don't have to decline. And there is nothing like having a sector of an industry that has no profits reflect on the kind of tax they prefer; they will favor an income tax. And that's the direction we are looking at because if you increase our costs, the number of companies in the independent sector going under will be quite large.

We also can't understand why the best piece of economic policy of the Reagan administration, the decontrol, which led to a decline in oil prices, would be reversed. Energy price declines are the best news we have had. They are the reason for declining inflation. To increase those prices now would be to reverse the very benefits the decontrol achieved.

I think we are most solidly opposed to an oil import fee. With due respect to my predecessor, I can say that it precipitates unfairness across the board. It's unfairness to fuel oil dealers; it's unfairness to consumers who aren't tied into natural gas lines; it's unfairness to independent companies who happen by accident of geography to be supplied by someone who brings imported oil into the country. It creates a tremendous windfall profit for a very select few producers. The domestic crude long integrated companies get the windfall. And in the end, the cost to the Government exceeds the benefit to the Government in the revenue ta[illegible]n in. We think in 3 years an oil import fee is counterproductive.

There is one other thing about an oil import fee. Our industry labored for 22 years with import controls of one kind or another. There has never been an import control system without exceptions. There has never been the administration of those exceptions without a bureaucracy. As I said earlier, the best thing this administration did was to decontrol oil and get the Government out of the business. We do not want to see a bureaucracy administering exceptions for fuel oil for both coasts, exceptions for fuel oil for poor

people, exceptions for farmers and so on. And they will all be in, and you will have to wrestle with those exceptions.

I think we can also turn to the taxes which are administered at the wellhead. There are terrible problems with those. We know that refiners can pass through cost anyway they want on any number of products. We are very much afraid that they won't come through equally among the different refiners on the different products. There will be regional differences and very great difficulties. And we think that you ought to keep that in mind.

I would like to say finally that of all the taxes that we have looked at the one that is probably least painful from our prospective as an industry, but most painful for you, is excise tax on product. That is increasing the gasoline excise tax or increasing direct consumer taxes at the pump. It is still difficult for us because it increases our inventory costs; it increases our cash flow demand. But of all the taxes, that is probably the least unfair from our sector's point of view.

I appreciate you giving me the opportunity to testify.

Senator DOLE. I might say that the entire statement will be made a part of the record.

[The prepared statement of Jack A. Blum follows:]

BEFORE THE

SUBCOMMITTEE ON ENERGY AND AGRICULTURAL TAXATION
COMMITTEE ON FINANCE
UNITED STATES SENATE

ON BEHALF OF

INDEPENDENT FUEL TERMINAL OPERATORS ASSOCIATION
INDEPENDENT GASOLINE MARKETERS COUNCIL
INDEPENDENT TERMINAL OPERATORS ASSOCIATION
NATIONAL OIL JOBBERS COUNCIL
SOCIETY OF INDEPENDENT GASOLINE MARKETERS OF AMERICA

ENERGY TAX OPTIONS

Submitted By:

Jack A. Blum
Blum & Nash
1015 18th Street, N.W.
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202-857-0220

June 9, 1982

My name is Jack Blum. I am speaking on behalf of five trade associations, the membership of which represents substantially all of the independent wholesalers and retailers of petroleum products. (A complete list of the associations and a description of their membership is attached to this statement.)

We are opposed to all of the energy taxes under discussion at this hearing. They would undermine the President's economic program by taking back a substantial portion of the tax cut. They would fuel inflation by pushing up the cost of a vital industrial raw material and a consumer good which is a major component of the CPI.

New energy taxes would be regressive and lead to further political assaults on the unfairness of the President's economic program. They would undermine the tax base of the states for whom energy taxes, whether severence taxes at the point of extraction or excise taxes on the consumer, are an essential revenue source.

Declining energy prices have been the major factor in declining inflation. We cannot understand why this Committee would want to reverse that decline. It is bad pre-election politics. It is bad economics. And it defies rational analysis.

If the purpose of a tax bill is to reduce interest rates which are high because "inflationary expectations" are high, why impose a tax guaranteed to increase inflation?

In 1930 and 31, Congress faced many of the same problems it faces today. Wall Street wanted the budget deficit closed and screamed for higher taxes to "restore confidence". Democrats and Republicans alike scrambled to meet Wall Street's demands and Congress, in fact, increased taxes. Historians now agree that the tax increase was a disaster. It didn't restore confidence, rather, it drove the economy straight down. This Committee would do well to read its own hearings of that time and consider today's problems in the light if that history.

Realizing that these opening arguments may not prevail, I will now turn to the problems raised by each of the proposals under discussion.

IMPORT FEES

We must oppose a fee on imported crude oil and products. An import fee would give a substantial competitive advantage to vertically integrated companies with domestic crude reserves. Those companies could choose between increasing their domestic crude prices the full amount of the fee and thus increasing their profits, or holding their prices temporarily while running thousands of independent marketers out of business.

In addition, the spread between fuel oil and natural gas prices could increase further. Price controlled natural gas is already given a major advantage by regulation. The increase would lead to more inefficient fuel switching. It would be the last straw for many fuel oil dealers who are now struggling to survive. It will also complicate the task of decontrolling natural gas, and add to arguments for a windfall profits tax on gas when it is decontrolled.

While some cringe at the thought of decontrolling natural gas because of its impact on natural gas consumers, it is ironic that the same response is absent when it comes to taxing residential consumers of heating oil.

It has been fashionable for some economists to say that an import fee won't be inflationary because the industry would have to "eat" it. I can categorically assure you that if you cook this dish and force us to eat it, it will be the last meal for thousands of us throughout the country. The issue will not be a reduction in profits for the independent sector; those disappeared last year with declining demand, declining prices and high interest rates. The issue will be survival.

The "windfall" effect of higher profits for domestic producers in an import fee makes it useless as a way of balancing the budget and reducing inflation. A number of

studies show that by the third year, a fee brings in less revenue than it costs the society in the form of increased prices and increased spending for entitlement programs which must follow inflation. Even President Carter understood that. When his advisers told him an import fee would be a quick revenue fix, he tried, albeit foolishly, to eliminate the windfall impact by putting the entire price increase on gasoline.

The country has had import fees, import restrictions and quotas for 22 of the last 24 years. All of those programs required exceptions and special relief.

You cannot draft and pass an import fee without being trapped in a maze of special requests, all legitimate to ease regional and sectoral hardships. Small refiners, fuel oil customers on both coasts, and petrochemical companies are but a few of the "hardship cases" which will cry out for exemption. No matter what the experts at the Treasury Department tell you, a fee will not be easy to administer. You will give the DOE regulators a new lease on life and you will create a fresh surge of work for the now underemployed Washington energy bar.

We beg you not to re-regulate inadvertantly this industry as you try to raise revenue. Deregulation was the best

single economic decision of the present administration. It should not be reversed.

Finally, we should note that an import fee will create impossible problems for the President's Carribean policy. The region's most important export to the U.S. is refined petroleum products. It will also anger and potentially unify an OPEC now in disarray because it is selling into a free market.

THE "AD-VALORUM" TAX AND THE "BTU" TAX

Our objection to these taxes has the same base as our objection to an import fee. Either tax could wind up having highly unpredictable competitive effects which would give some firms the competitive ability to put others out of the business without regard to economic efficiency or equity.

Crude oil is a raw material from which dozens of products are produced simultaneously. Different products are sold in markets with differing levels of competition. Because of that we have no assurance that refiners will pass the tax through equally on all products or even that all refiners will weigh the products the same way. Some refiners would probably use their market power on one product in one region to pass through the tax while they kill their competitors on another product in another region.

The ad-valorum approach has an even more difficult problem built into it. If the tax is applied to crude and natural gas at the wellhead, the disparity between the price of home heating oil and natural gas to the consumer will increase dramatically because the base for the tax on gas will be the controlled wellhead gas price and will not include pipeline transportation. The resulting difference would make home heating oil the fuel for people without access to gas and no one else. There is no rational basis for increasing the spread in wellhead prices between oil and gas; common sense dictates that the spread be decreased or eliminated.

A wellhead ad-valorum tax would be a national severence tax. It is an approach which should concern members from producing states which have relied on severence taxes to deal with the problems created by energy development.

Product imports would also raise vexing problems under the ad-valorum approach. If imported products are not to be taxed at a higher rate than domestic products, a system of allowances for refining and transportation would have to be developed. If they are developed, the government would be in the position of "fixing" refining margins. If they are not developed, the competitive imbalances which will result will lead to a system of regulatory "fixes".

Both the BTU and the ad-valorum tax would raise the price of product to wholesalers and terminal operators. Their capital costs would increase as would their borrowing needs inasmuch as inventory costs would rise. Their ability to provide credit to farmers, small businesses and retail accounts would be curtailed.

Increased inventory carrying costs would also encourage further inventory drawdowns of crude and product. That destocking harms the national security by making the country vulnerable to supply disruption.

INCREASED MOTOR FUELS EXCISE TAXES

From the narrow perspective of independent distributors, an increase in motor fuel excise taxes would be the least harmful of the proposed alternatives. It would not create competitive problems, it might create credit and cash flow problems but it probably can be administered through the present excise tax system.

But having said that, we restate our opposition to any new tax and add several specific reasons. As wholesalers operating trucks, we know the excise money is needed in the highway trust fund to fix decaying interstates and crumbling bridges. If the money goes to close the deficit, how will these other needs be met?

States which depend upon motor fuels taxes would have their tax base eroded just as Washington is about to give state legislatures new areas of responsibility. Many states have just increased their motor fuels taxes dramatically and one must ask how much of a sales tax on this essential commodity makes sense.

In closing, I must return to what I said at the outset. None of these ideas are any good. They all raise serious energy policy, foreign policy and competition issues. They are all regressive and inflationary and all but one, the excise tax, will be difficult to collect.

It takes a serious recession to remind many of us in the business community of the virtues of the income tax. The major virtue from where we sit is you don't pay if you don't have income, and a very large number of our members haven't had income for the last year or more.

We would rather give up income when we have it than have our costs increased when we are losing money.

A three-month deferral of the third year of the tax cut would raise the same FY 1983 revenue as an energy tax with a fraction of the grief. Why not look at that as an alternative, if there must be a tax increase during this recession.

If you have any questions, I will do my best to answer them.

The Independent Fuel Terminal Operators Association is comprised of 16 companies which own and control terminals capable of receiving ocean-going tankers. None are affiliated with a major integrated oil company. Members of the Association are independent marketers of No. 2 fuel oil, No. 6 fuel oil, gasoline and other petroleum products.

The Independent Gasoline Marketers Council is a trade association of nonbranded independent retailers of motor gasoline. Council members operate groups of retail stations under their own brand name and operate in 45 of the 50 states.

The Independent Terminal Operators Association (ITOA) are comprised of independent terminal operators and marketers of petroleum products. Members of ITOA operate terminals primarily on the in-land waterways. Members of ITOA market gasoline in over 40 states.

The National Oil Jobbers Council is a federation of 42 state and regional trade associations representing thousands of independent small business petroleum marketers. Members include gasoline and diesel fuel wholesalers, commissioned distributors of gasoline, gasoline reseller-retailers and a large number of retail fuel oil dealers. Members also wholesale or retail many other petroleum products, including kerosene, LP gas, aviation fuels and motor oils as well as residual fuel oil. Together our members market approximately 50 percent of the gasoline and 85 percent of the home heating oils sold in America under either their own private brand or the trademark of their supplier.

The Society of Independent Gasoline Marketers of America (SIGMA) is a trade association comprised of approximately 250 independent marketers and private brand chain retailers of motor fuels. SIGMA members operate in 49 of the 50 states through over 15,000 retail outlets and their sales represent between 10 and 15 percent of total retail sales of motor fuels in the United States.

STATEMENT OF ARTHUR SEDER, JR., CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER, AMERICAN NATURAL RESOURCES CO., MICHIGAN WISCONSIN PIPELINE CO., DETROIT, MICH. ON BEHALF OF INTERSTATE NATURAL GAS ASSOCIATION OF AMERICA

Senator DOLE. Mr. Seder.

Mr. SEDER. Mr. Chairman, my name is Arthur Seder. I am chairman of INGA, which is the organization representing the interstate natural gas pipelines in this country. I am also chairman of the interstate gas system serving Michigan and Wisconsin.

Senator Dole, I wouldn't want to cause you a coronary arrest by coming out four square for one of these tax alternatives. I should remind you that INGA did present you an alternative to the minimum tax in the form of an adjustment of the investment tax credits. And I will suggest the least worst of the alternatives as one that we could support in this case.

But before doing so, I should say that INGA does oppose the energy taxes generally for reasons that have been articulated pretty well. Nobody has yet made even a pretense of explaining why taxes should be put on this particular industry other than the large dollar amounts involved in the industrys' business, plus the ease of collections. And as Mr. Baly has indicated, I think it is pretty generally agreed that taxes paid by consumers for essential fuels are the most regressive of all taxes. And I should add that taxes are being used increasingly at the local level to fund local and State governments.

For example, in Detroit, with which I am particularly familiar, and Chicago, they have 5-percent taxes on utility use so that the gas company there has to pay 5 percent on all the gas sold. There is a 4-percent State sales tax. So there is 9- to 10-percent right off the top that goes to the local and State governments.

We particularly oppose a tax on natural gas, as you might have expected. As you know, gas prices have been increasing dramatically. And the reason is very obvious. The NGPA, passed in 1978, mandates wellhead price increases a 4-percent in addition to the rate of inflation. And on top of that, of course, there are increases in the cost of transportation and distribution. But what you have got mandated legislatively is an increase in the gas cost considerably greater than the rate of inflation generally. So in recent months where oil prices have been going down, gas prices have been continuing to increase and the increase on an annual basis to the consumer has been in the range of 20- to 30-percent a year over the last several years.

Now if additional revenues must be raised from the energy industries, like the American Gas Association, we would support an oil import fee. And for many of the same reasons. It will raise substantial revenues. There is the revenue not only from the oil import fee itself, but because of the impact of raising prices domestically, the domestic producer will pay increased windfall profit taxes and income taxes that are estimated at something like 65 to 85 percent of the increase that he received at the wellhead. So a very substantial amount of the increase to the domestic producer comes back to the Government in that form.

Second, it's generally agreed that an import tax of that kind would have the effect of reducing the price that OPEC charges for the oil exported to the United States so that there would be a saving to the consumer in that respect as well.

We believe this is a particularly good time for the imposition of an oil import fee if one is to be imposed at any time. That is, prices have fallen, as one of those charts that were up a moment ago indicated, from $35 to $36 a barrel for crude oil down to $30 or thereabouts. So the effect of a $5 a barrel tax or import fee would be simply to restore it to the point where it was roughly a year ago.

Now Senator Boren made a point in his opening statement about how consumers are really beginning to forget the fact that we must continue to conserve oil—that this is a temporary situation. And just to document that, I would like to read a brief excerpt from an article in the Wall Street Journal from Detroit. It says that:

> U.S. auto makers said that next week they will temporarily close six car making plants and two light truck plants as they respond to shifting takes in the current car market. The plants produce mainly subcompact and compact sized cars, sales of which slowed when gasoline prices were falling this spring. At the same time, automakers plan an extra day of production at five plants, including those building sporty and full sized cars.

So there has been a definite lessening of the conservation ethic, which I think an oil import fee would tend to offset.

Just one other point that I would like to make. It has been emphasized by several speakers that an oil import fee would have the effect of improving the incentives for domestic oil and gas exploration. I believe that it would, and that it would help measurably. I should add, however, that my company is the principal sponsor of a major coal gassification project out in North Dakota known as the great plains project. It's one of only two synthetic fuels projects still going forward. And I must say that, with the variations in the price of OPEC oil, it is very, very difficult to assess the economics of synthetic fuels projects, with the result that, at the moment with oil prices reduced, virtually all projects that are not already underway have been canceled, including the Colony oil shale project. So an oil import fee would give at least some base of certainty as to what was going to happen to OPEC oil prices, and give some assurance upon which a synthetic fuels industry in this country might go forward.

I appreciate the opportunity to appear before you, and I am ready to answer your questions.

Senator DOLE. Thank you very much.

[The prepared statement of Arthur R. Seder, Jr., follows:]

STATEMENT OF ARTHUR R. SEDER, JR., CHAIRMAN OF THE BOAR
INTERSTATE NATURAL GAS ASSOCIATION OF AMERICA
BEFORE THE
FINANCE SUBCOMMITTEE ON ENERGY AND AGRICULTURAL TAXATION
UNITED STATES SENATE

JUNE 9, 1982

Mr. Chairman and Members of the Committee:

My name is Arthur R. Seder. I am Chairman of the Board and Chief Executive Officer of the American Natural Resources Company and the Michigan Wisconsin Pipe Line Company, a principal subsidiary. I am currently serving as Chairman of the Interstate Natural Gas Association of America (INGAA), and it is in this capacity that I appear before the Committee today.

INGAA is a national trade association representing the interstate natural gas transmission industry. INGAA member companies account for over 90% of all natural gas transported and sold in interstate commerce. All of our member companies are subject to the jurisdiction of the Federal Energy Regulatory Commission (FERC) as mandated by the provisions of the Natural Gas Act (15 U.S.C. 717, et seq.). Obviously, our industry has a vital stake in any taxation on energy.

In the announcement of these hearings, Chairman Wallop indicated that Congress needs to find a variety of avenues for raising revenues; that the Congress needs to begin to consider the different alternatives available for raising revenue and, in considering these various options, needs to have the best information on the impact future Congressional actions will have on the economy.

Our Association is acutely aware that additional revenue is necessary to meet this Administration's goals to bring about an economic recovery. Jerome J. McGrath, the President of our Association, testified before the Senate Finance Committee on this very point and provided some positive suggestions concerning the alternative corporation minimum tax which I understand is being considered by the Committee. As a result, we have continued a dialog with this Committee staff on that proposal.

As with the debate on an alternative corporation minimum tax, with reference to energy tax options, INGAA stands ready to offer positive, constructive suggestions on how revenue can be raised in the best and most equitable manner.

Our Association believes that our government should place the highest priority on the renewal of public confidence in this country's economy. A return to a reasonable balance of Federal revenue and expenditures will, in time, be recognized as one of the most significant economic events of this decade. While additional Federal revenues may be necessary, therefore, we believe that the test of new tax proposals should be to select those having the least adverse impact on our domestic economy.

Mr. Chairman, it is difficult for INGAA to endorse any of the various energy tax alternatives before this Committee. It is tempting, we know, to impose taxes on the production or use of energy since the burden is then spread widely throughout the population. But energy is already so highly taxed that the domestic energy industry has become in a very real

sense a collector of taxes from the public for federal, state and local governments. We believe it is unfair, unwise and inflationary to attempt further to make the energy industry the tax collector for our national treasury.

We are particularly opposed to proposals before your Committee that would impose additional taxes on the production, transportation, sale or use of natural gas. The gas consumer already pays (1) severance taxes levied by producing states, (2) property taxes imposed on heavy capital investments in transportation and distribution facilities, (3) sales and use taxes on the ultimate sale or use of gas, and (4) in a number of cities including Chicago and Detroit a municipal tax amounting to as much as 5% of the sales price. In addition, of course, the producers, transporters and distributors of gas all pay federal, state and local income and other taxes on their operations in different taxing jurisdictions.

Any effort to impose additional taxes on the natural gas industry would be particularly burdensome and oppressive because of the very rapid increases in gas rates that have occurred over the past several years. These increases stem from the fact that, recognizing the need to provide production incentives for the natural gas industry after 25 years of regulation, Congress in 1978 enacted the Natural Gas Policy Act. That Act provided for increases in wellhead prices substantially greater than the rate of inflation and for further price incentives in the case of certain categories of gas.

The natural gas pipeline industry, therefore, strongly opposes any and all proposals that would raise the price of natural gas. These include an ad valorem tax on all fuels and a tax on all fuels based on the British Thermal Unit content of the fuel.

INGAA also opposes an excise tax on imported and domestic oil. Domestic oil production is already subject to an excise tax in the form of the Windfall Profits Tax, and national policy should encourage domestic oil exploration and production rather than adding more disincentives.

If the revenue requirements of the Federal government are such that some additional revenues must be raised from the energy industry, INGAA believes that the appropriate source for such revenues is a fee on imported crude oil and petroleum products. In our view a fee applicable to imported oil and petroleum products would be justified, as compared with other alternatives, on the following grounds:

First, the import fee would raise significant revenues. Not only would the fee produce revenues on every barrel of oil or products imported, but the resulting increase in the price of domestically produced oil would generate additional income and Windfall Profits Tax revenues.

Second, the import fee would maintain the conservation discipline imposed by higher oil prices over the past several years. With the recent reduction in oil prices, a movement back toward less fuel efficient autos has already manifested itself, and the need to concentrate on continuing conservation has become less evident. The recent softening of world oil prices thus provides an opportunity for the imposition of an import fee with fewer adverse consequences for the economy than in the past and a means of encouraging continued conservation.

Third, an import fee would encourage domestic exploration and production of oil and gas and tend to reduce our dependence on foreign energy sources. The positive response of oil and gas producers to higher prices over the past several years as manifested by record rig counts and seismic activity demonstrates the significant elasticity of supply. There is every reason, from the standpoint of national security, from the standpoint of balance of payments and from the standpoint of impact on the domestic economy, to encourage domestic oil and gas production and to discourage imports. An oil import fee would accomplish both objectives.

Fourth, an import fee would provide essential incentives for the development of domestic synthetic fuels projects. Supplemental supplies of energy from coal and oil shale will probably be required in the latter 1980's and certainly be required in the decades to come. Yet temporary reductions in world oil prices tend to discourage planning and implementation of synthetic fuels projects. An import fee would provide a base of support for such projects against the vagaries of short-term movements in world oil prices.

Fifth, as a result of conservation, recession and increased production of natural gas resulting from NGPA pricing, natural gas is presently in plentiful supply. Indeed, many pipeline members of INGAA are unable to take all of the gas required under their contracts with producers and are incurring millions of dollars of "take-or-pay" obligations, which increase the price of gas to the consumer. At the same time, natural gas pipeline customers have lost significant industrial loads to fuel oil, thereby

increasing the burden of additional imports at the expense of domestic production. An import fee would tend to counterbalance the shift from domestic natural gas to imported foreign oil.

If an import fee on crude oil and petroleum products is imposed, it is important that it apply to all oil and refined products coming into the U. S. from all overseas points without any exceptions.

It may be argued that an oil import fee would adversely affect consumers who heat their homes with oil, as contrasted with those who use natural gas or electricity, and would have a disproportionate effect on areas of the country (particularly the Northeast) where the use of oil predominates. There are two answers to this argument.

First, the price of natural gas has been rising at a rate that has tended to minimize or eliminate differentials between oil and gas costs at the residential and commercial, as well as the industrial, level. An increase in fuel oil prices resulting from imposition of an import fee thus would tend to maintain pre-existing cost relationships between oil and gas, not increase the disparity.

Second, one of the commitments that Congress has insisted be carried out notwithstanding proposals for massive reductions is the commitment to provide meaningful fuel cost assistance to needy families. The import fee would provide a source of funds for that purpose and would assure that persons adversely affected by increases in fuel oil costs, if they meet the criteria of need, will receive the assistance they require.

Thank you for this opportunity to present these views on behalf of the natural gas pipeline industry.

Senator DOLE. Senator Durenberger.

Senator DURENBERGER. No questions.

Senator DOLE. I would again indicate that an energy tax is attractive for the reasons stated. It's a big ticket item. And you can raise a lot of money on energy where you can't raise it in other places. And it's attractive. Plus, there are some other more positive aspects—conservation and things of that kind. And I do know because a plant just reopened in Kansas City, Kans. in the Fairfax area which makes Peabody cars—regular sized cars—with 2,000 people called back to work in the last 10 days. People are now saying the oil problem is over and we don't need the compact car. No doubt, there is a trend away from conservation, which does make some form of an energy tax attractive.

And again, I think we can put together a revenue package that will not require an energy tax. I know there are others on this committee who have a contrary view and feel that some kind of a tax is necessary. But I share the view expressed by Mr. Blum that if we have anything, it is going to be filled with exceptions. If we have an import fee, there will be some provision made for heating oil in the New England States. There should be and there will be, I assume. The same would be true of any across-the-board excise tax on domestic and imported oil. There isn't much chance of any deregulation of natural gas with a tax on gas. The other direct tax, of course, would be a tax at the pumps. And there is some interest in that, as expressed by Senator Symms and, I think, others on the committee.

But I think you have had excellent testimony. It will be helpful to our committee. We will be coming, I hope, to grips with this problem in the next couple of weeks.

Does anybody have anything else they wish to add?

Mr. BLUM. I, Senator Dole, would like to focus on that business of larger cars are selling better. It turns out that people with more income are the ones who buy the larger cars. And they are the ones least hard hit in the kind of economic times we have. They are the people who can afford the interest rates to buy the larger cars. And it may not be a function of forgetting conservation at all. It may just mean that poor people are now poorer and can't buy anything new.

Senator DOLE. Well, that may be part of it. I visited that plant last week. It's the only good news that we have had for a while in Kansas. I went out to the plant where the people were going back to work.

I think another factor is—at least I am told that they are safer; they are not that much more expensive; and the gas efficiency is much better, the mileage is better. So there are a number of good reasons. But you are probably right. I think the economy is certainly a factor.

We will, if the committee should agree on some energy tax—you will hear about it. Keep in touch. [Laughter.]

Mr. BLUM. Thank you.

Senator DOLE. We now have our next panel. Mr. Chandler, Washington Representative, Environmental Policy Center; Mr. Ralph Hofstad, chairman of the board, National Council of Farmer Cooperatives and chief executive officer, Land O'Lakes, Minneapolis,

Minn., accompanied by Mr. R. Thomas Van Arsdall, vice president. Energy Resources; Mr. Richard Perry, director of hydrocarbons supply planning, Union Carbide Corp.; Mr. Richard Ludwig, vice president, Engineering, Hammermill Paper Co., Erie, Pa.

Mr. Hofstad is the one who has the plane problem. Maybe we can hear from him first.

STATEMENT OF RALPH HOFSTAD, CHAIRMAN OF THE BOARD, NATIONAL COUNCIL OF FARMER COOPERATIVES, PRESIDENT AND CHIEF EXECUTIVE OFFICER OF LAND O'LAKES, INC.

Mr. HOFSTAD. Thank you very much, Mr. Chairman. My name is Ralph Hofstad. I am president of Land O'Lakes, a farmer-owned cooperative. With me is Eric Thompson, a farmer, and president of MFA, Inc. [Missouri Farmers Association].

To summarize our statements, Mr. Chairman, the national council is opposed to the imposition of any energy taxes as a means of raising revenues to fulfill a general budgetary need. We believe that for a number of reasons negative aspects of the tax alternatives, which are the subject of this hearing, considerably outweigh any perceived benefits.

Given the critical role that energy plays in this Nation's entire economic fabric, there is a real danger that major new energy taxes could further delay desperately needed downward shifts in interest rates. If the search for additional tax revenues remains focused upon energy, the national council must voice strong opposition to an oil import fee as the worst alternative of those being considered. Such a fee would unfairly place the burden of fulfilling a general need for increased tax revenues upon one segment of society. Namely, the consumers of petroleum products.

For example, a $5 per barrel fee would increase farmers' fuels costs for business operations alone by about $1 billion annually. Net farm income, already at depression-era levels would be reduced by as much as 8 percent as a result. Given the desperate state of the farm economy, farmers can ill afford additional shocks of this magnitude.

The other tax proposals, Btu, ad valorem, and motor fuel excise tax, each have their own strengths and weaknesses. To the extent that such a tax is more broadly based, the burdens are distributed more equitably. Our prepared statement provides additional views.

We are pleased that you are holding this hearing to examine energy taxes. The substance of your efforts is to pass a budget which represents the best interest of this Nation. We commend you for your timeliness and dedication.

I would like to briefly expand my remarks on energy taxes to address them within the context of the overall budget debate, the objectives of that budget and the implications for American agriculture. I just left a meeting—it's still in session—with the board of directors to testify at this hearing. They have asked me to convey to you our deep and overriding concern about the continuing high interest rates that represent the single, most serious problem facing American agriculture today.

I'd like to submit the following resolution, which was just passed by the board, for the record. You have certainly a difficult job

before you. I know that you have been searching hard for ways to reduce the budget deficit. If you need any fresh encouragement, let me assure you that the national council and its farmer members are fully behind your efforts toward this end, as a means of getting interest rates down. Agriculture is, indeed, willing to sacrifice its fair share in this process.

The current high interest rates make it almost impossible for family farms to survive the many other problems which they are experiencing. Farmers have always faced with cheerful grimness the whims of nature—floods, drought, insects, pests—with determination to survive. When they have overcome these obstacles, they have often faced low commodity prices. Increasing farm input costs have also been a constant problem.

High interest rates are draining the vitality of the American farmer in rural America. And seriously weakening his ability to weather these other adverse developments. This Congress and the administration must do whatever is necessary to move interest rates down to a reasonable level, if a disaster in the agricultural community in rural America is to be avoided.

The national council and its members fully intend to work tirelessly toward this end. We stand ready to work with members of the committee.

A question that you might ask me: Does this mean that you are prepared to accept an energy tax if Congress deems it is required to bring interest rates down to an acceptable level? My answer is that I hope this is not your conclusion after a review of all options. However, if it becomes truly necessary in order to bring down interest rates, the end would justify the means. We must emphasize that should such a tax be imposed it must be structured carefully to spread this burden as equitably as possible in order to minimize the negative impact as much as possible. Certainly an oil import fee would be the worst of all options proposed.

We know that the next 30 to 60 days is very, very critical. Interest rates are one of the most critical points. And we feel there must be a bipartisan approach now to this problem. We can't justify or condone a self-interest position on this issue today. To me, there must be a compromise on taxes, entitlements, defense, and social security. And if we can get the budget deficit down to $50 to $70 billion, the perceptions will change and interest rates will go down. I think that is the greatest cloud we have over our heads today.

You have heard my feelings on energy, and my overriding concern about high interest rates. And something has got to be done in the next 30 to 60 days, or we can be moved from a recession into a depression.

Thank you very much.

Senator DURENBERGER. Thank you, Mr. Hofstad. I wish the chairman had been here for the emphasis as well as the resolution. It was very appropriate and quite clearly a message that needs to be

heard outside this room. And I take it the reason for your passing the resolution today was to make sure it was heard outside this room as well.

Mr. HOFSTAD. It was.

Senator DURENBERGER. Do we need to excuse you now? You may have missed the 4:30 flight anyway.

Mr. HOFSTAD. I'm all right.

[The prepared statement of Ralph Hofstad and the resolution follow:]

STATEMENT OF
RALPH HOFSTAD
CHAIRMAN OF THE BOARD
NATIONAL COUNCIL OF FARMER COOPERATIVES
AND
PRESIDENT AND CHIEF EXECUTIVE OFFICER
LAND O'LAKES, INC.

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

MY NAME IS RALPH HOFSTAD, AND I AM PRESIDENT OF LAND O'LAKES, INC., A FARMER-OWNED COOPERATIVE. I AM APPEARING HERE TODAY IN MY ROLE AS CHAIRMAN OF THE BOARD OF THE NATIONAL COUNCIL OF FARMER COOPERATIVES. I AM PLEASED TO HAVE THE OPPORTUNITY TO APPEAR BEFORE THIS SUBCOMMITTEE TO DISCUSS ENERGY TAX ALTERNATIVES WITHIN THE CONTEXT OF THE OVERALL BUDGET DEBATE AND PARTICULARLY, FROM OUR PERSPECTIVE, THE IMPLICATIONS FOR AGRICULTURE AND RURAL AMERICA.

TO SUMMARIZE OUR STATEMENT, MR. CHAIRMAN, THE NATIONAL COUNCIL OF FARMER COOPERATIVES IS OPPOSED TO THE IMPOSITION OF ANY MAJOR ENERGY TAXES AS A MEANS OF RAISING REVENUES TO FULFILL A GENERAL BUDGETARY NEED. WE BELIEVE THAT FOR A NUMBER OF REASONS, NEGATIVE ASPECTS OF THE TAX ALTERNATIVES WHICH ARE THE SUBJECT OF THIS HEARING CONSIDERABLY OUTWEIGH ANY PERCEIVED BENEFITS. GIVEN THE CRITICAL ROLE THAT ENERGY PLAYS IN THIS NATION'S ENTIRE ECONOMIC FABRIC, THERE IS A REAL DANGER THAT MAJOR NEW ENERGY TAXES COULD FURTHER DELAY THE DESPERATELY NEEDED DOWNWARD SHIFT IN INTEREST RATES.

IF THE SEARCH FOR ADDITIONAL TAX REVENUES REMAINS FOCUSED UPON ENERGY, THE NATIONAL COUNCIL MUST VOICE STRONG OPPOSITION TO AN OIL IMPORT FEE AS THE WORST ALTERNATIVE OF THOSE BEING CONSIDERED. SUCH A FEE WOULD UNFAIRLY PLACE THE BURDEN OF FULFILLING A GENERAL NEED FOR INCREASED TAX REVENUES UPON ONE SEGMENT OF SOCIETY, NAMELY, THE CONSUMERS OF PETROLEUM PRODUCTS. FOR EXAMPLE, A $5-PER-BARREL FEE WOULD INCREASE FARMERS' FUEL COSTS FOR BUSINESS OPERATIONS ALONE BY ABOUT $1 BILLION ANNUALLY. NET FARM INCOME, ALREADY AT DEPRESSION-ERA LEVELS, COULD BE REDUCED BY AS MUCH AS 8 PERCENT AS A RESULT.

GIVEN THE DESPERATE STATE OF THE FARM ECONOMY PRESENTLY, FARMERS CAN ILL AFFORD AN ADDITIONAL SHOCK OF THIS MAGNITUDE.

THE OTHER TAX PROPOSALS--BTU, AD VALOREM, AND MOTOR FUELS EXCISE TAX--EACH HAVE THEIR OWN STRENGTHS AND WEAKNESSES. TO THE EXTENT THAT SUCH A TAX IS MORE BROADLY-BASED, THE BURDENS ARE DISTRIBUTED MORE EQUITABLY. OUR PREPARED STATEMENT PROVIDES ADDITIONAL VIEWS.

WE ARE PLEASED THAT YOU ARE HOLDING THIS HEARING TO EXAMINE ENERGY TAXES, AS A SUBSET OF YOUR CURRENT STRUGGLES TO DEVELOP AND PASS A BUDGET WHICH REPRESENTS THE BEST INTERESTS OF THIS NATION. I COMMEND YOU FOR YOUR TIMELINESS AND DEDICATION.

I WOULD LIKE TO BRIEFLY EXPAND MY REMARKS ON ENERGY TAXES TO ADDRESS THEM WITHIN THE CONTEXT OF THE OVERALL BUDGET DEBATE, THE OBJECTIVES OF THAT BUDGET, AND THE IMPLICATIONS FOR AMERICAN AGRICULTURE.

I JUST LEFT A MEETING OF THE BOARD OF DIRECTORS TO TESTIFY AT THIS HEARING. THEY HAVE ASKED ME TO CONVEY TO YOU OUR DEEP AND OVERRIDING CONCERN ABOUT THE CONTINUING HIGH INTEREST RATES WHICH REPRESENT THE SINGLE MOST SERIOUS PROBLEM FACING THE AMERICAN AGRICULTURAL COMMUNITY. I WOULD LIKE TO SUBMIT THE FOLLOWING RESOLUTION WHICH WAS JUST PASSED BY THE BOARD FOR THE RECORD:

(RESOLUTION)

YOU CERTAINLY HAVE A DIFFICULT JOB BEFORE YOU. I KNOW THAT YOU HAVE BEEN SEARCHING HARD FOR WAYS TO REDUCE THE BUDGET DEFICIT. IF YOU NEED ANY FRESH ENCOURAGEMENT, LET ME ASSURE YOU THAT THE NATIONAL COUNCIL AND ITS FARMER-MEMBERS ARE FULLY BEHIND YOUR EFFORTS TOWARD THIS END AS A MEANS OF GETTING INTEREST RATES DOWN. AGRICULTURE IS INDEED WILLING TO SACRIFICE ITS FAIR SHARE IN THIS PROCESS.

THE CURRENT HIGH INTEREST RATES MAKE IT ALMOST IMPOSSIBLE FOR FAMILY FARMS TO SURVIVE THE MANY OTHER PROBLEMS WHICH THEY ARE CURRENTLY EXPERIENCING. FARMERS HAVE ALWAYS

FACED WITH A CHEERFUL GRIMNESS THE WHIMS OF NATURE--FLOODS, DROUGHT, INSECT PESTS--WITH A DETERMINATION TO SURVIVE. WHEN THEY HAVE OVERCOME THESE OBSTACLES, THEY HAVE OFTEN FACED LOW COMMODITY PRICES. INCREASING FARM INPUT COSTS HAVE ALSO BEEN A CONSTANT PROBLEM.

HIGH INTEREST RATES ARE DRAINING THE VITALITY OF THE AMERICAN FARMER AND SERIOUSLY WEAKENING HIS ABILITY TO WEATHER THESE OTHER ADVERSE DEVELOPMENTS. THIS CONGRESS AND THE ADMINISTRATION MUST DO WHATEVER IS NECESSARY TO MOVE INTEREST RATES DOWN TO A REASONABLE LEVEL, IF A DISASTER IN THE AGRICULTURAL COMMUNITY IS TO BE AVOIDED.

THE NATIONAL COUNCIL AND ITS MEMBERS FULLY INTEND TO WORK TIRELESSLY TOWARD THIS END. WE STAND READY TO WORK WITH MEMBERS OF THE COMMITTEE.

National Council of Farmer Cooperatives
1800 MASSACHUSETTS AVENUE, N.W. • WASHINGTON, D.C. 20036 • TELEPHONE (202) 659-1525

INTEREST RATES MUST BE LOWERED
IF AMERICAN AGRICULTURE IS TO SURVIVE

WHEREAS agriculture is the heart and soul of America: as goes agriculture, so goes the nation;

WHEREAS agriculture is facing a Depression-era farm income picture; farmers and the food and fiber system are on the brink of economic disaster, and the family farm system is threatened;

WHEREAS disaster in American agriculture would be equally disastrous for the American economy and for all consumers; Americans are better fed at a lower cost than anywhere else in the world; $40 billion in agricultural exports contribute vitally to reducing the foreign balance of payments deficits; and high interest rates sharply detract from this benefit;

WHEREAS the continuing record high interest rate constitutes a deadly force which robs American agriculture of its ability to weather current severe economic problems; interest costs comprise a rapidly increasing share (currently about 20 percent) of current farm operating expenditures, sharply eroding farm income; farm bankruptcies are already at dangerously high levels;

WHEREAS the uncontrolled federal budget deficit is a major factor in preventing interest rates from declining;

WHEREAS if Congress and the Administration fail to take action to reduce interest rates now, all other efforts to save the economy may prove futile;

WHEREAS partisan politics are dangerously inhibiting the ability of Congress and the Administration to take decisive action;

WHEREAS all federal programs should contribute to reducing the federal deficit; agriculture is willing to sacrifice its fair share;

BE IT RESOLVED that the Board of Directors of the National Council of Farmer Cooperatives strongly urges that the Congress and the Administration immediately join forces to take whatever steps are necessary, including reduction of the federal deficit and/or any other actions deemed necessary, to help bring interest rates down to a level which will allow agriculture and the American economy to survive.

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6/9/82

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Statement of
R. Thomas Van Arsdall
Vice President, Energy Resources
National Council of Farmer Cooperatives

Mr. Chairman and Members of the Committee:

My name is R. Thomas Van Arsdall, and I am Vice President of Energy Resources with the National Council of Farmer Cooperatives. The National Council is pleased to have the opportunity to appear before this Subcommittee to discuss an oil import fee and other energy tax revenue-raising options and particularly, from our perspective, the effects of such taxes on agriculture and rural America.

The National Council of Farmer Cooperatives is a nationwide association of cooperative businesses which are owned and controlled by farmers. Its membership includes 116 regional marketing and farm supply cooperatives, the 37 banks of the cooperative Farm Credit System, and 31 state councils of farmer cooperatives. National Council members handle practically every type of agricultural commodity produced in the United States, market these commodities domestically and around the world, and furnish production supplies and credit to their farmer members and patrons. Two-thirds of United States farmers are affiliated with one or more cooperatives. The National Council represents about 90 percent of the more than 6,400 farmer cooperatives in the nation, with a combined membership of nearly 2 million farmers.

Among the cooperatives the National Council represents are supply cooperatives which own and operate 5 efficient refineries which have an aggregate production capacity of 301,000 barrels per day, and whose yields of gasoline, diesel fuel and heating oil amount to approximately 85 to 90 percent of their refined products. While this represents only about 2 percent of United States refining capacity, cooperatives market petroleum products in more than 40 states and currently supply about 45 percent of all on-farm fuel and a large portion of rural needs.

The National Council's testimony today (1) registers strong opposition to the imposition of any new energy taxes, (2) identifies why an oil import fee is the least acceptable of all proposed options, and (3) comments briefly upon proposed tax alternatives.

NCFC OPPOSES ENERGY TAXES TO MEET GENERAL REVENUE NEEDS:

The National Council of Farmer Cooperatives is strongly opposed to the imposition of any major energy taxes, if such action is taken solely as a means of raising revenues to fulfill a general budgetary need. We certainly support Congressional and Administration efforts in the difficult search for both cost-saving and revenue-raising alternatives designed to offset a rapidly growing federal deficit. However, we believe that for a number of reasons the negative aspects of major energy tax alternatives considerably outweigh any perceived benefits.

Energy is a critical dimension of this nation's entire economic fabric, comprising a major item in the consumer's direct budget and representing a significant cost component of every manufactured good and service. The 160-percent price increase in oil which followed the oil disruption caused by the Iranian Revolution in 1978/79 can be pointed to as the source of much of this nation's present economic ills. In the past six months, modest price drops have been one of the few small pieces of good news for consumers and business. Unfortunately, a sharp drawdown in inventories has tightened supplies to the point where fuel prices are again rising.

Any energy tax would add inflationary pressure, not only to direct fuel cost, but also to manufactured goods and services. There is a real danger that this could further delay the desperately needed downward shift in interest rates.

This nation's economic well-being is closely tied to energy events. One might characterize energy as vital to our economic activity as food is to humans. Any proposal to tax energy as a means of meeting general revenue needs should be approached just as carefully as a similar tax on food.

Granted, no tax can be characterized as a desirable alternative. Indeed, any new tax inflicts the greatest hardship upon those asked to pay it during a time of economic recession, when they are least able to adjust. This Committee must certainly concern itself about how the negative economic effects of a new tax during the current recession balance against the desire to reduce the deficit through new taxes.

OIL IMPORT FEE WORST CASE ALTERNATIVE:

If a search for additional tax revenues remains focused upon energy, the National Council must voice strong opposition to an oil import fee as the worst alternative of those being considered. We would like to share our concerns by identifying the negative impacts on agriculture and the inherent inequities of an oil import fee.

First, an oil import fee would unfairly place the burden of fulfilling a general need for increased tax revenues upon one segment of society, namely, the consumers of petroleum products. For example, a $5-per-barrel fee would, at a minimum, increase the cost of a gallon of gasoline, diesel fuel, or home heating oil by 12 cents. This tax would be regressive and would tend to impact most heavily upon those least able to afford it, including farmers and home heating oil customers.

Second, the National Council estimates that on an annual basis a $5-per-barrel import fee would increase farmers' fuel costs for business operations alone by about $1 billion.

Currently, net farm income levels are forecast to be the lowest since the Great Depression. Estimates range from 13 to 18 billion dollars, as much as a 50-percent decrease from the already depressed 1981 level of 23 billion dollars. A $5 import fee could end up reducing net farm income by 5 to 8 percent.

Given the desperate state of the farm economy presently, farmers can ill afford an additional shock of this magnitude. As price-takers, farmers certainly cannot pass such increased corts forward. Even if they could, consumers do not need the double shock of import fees reflected in higher food prices.

Third, an oil import fee will ultimately be reflected in the prices of other fuels. For example, once natural gas is decontrolled, the ripple effect of a $5 fee could add another $600 million to farmers' costs of operations. The major impact would be upon natural gas embodied in fertilizer and other farm inputs. Negative impacts of an oil import fee could thus be increased by 40 percent.

Fourth, an oil import fee would generate severe distortions in the domestic petroleum industry and could jeopardize the viability of the rural petroleum system. Farmer cooperatives and other independent refiners supply between two-thirds and three-fourths of the demand for petroleum products in the agricultural market. A number

of major oil companies are continuing to withdraw from these less profitable markets. Under the existing petroleum system, cooperative and other independent refiners directly own only a small portion of their crude oil requirements. They are heavily reliant on domestic crude oil contracts and imported crude oil to fulfill their needs.

To the extent that refiners rich in domestic crude oils choose to employ part of the import fee-related artificial cost advantage to gain a competitive edge in the presently depressed petroleum market, the viability and integrity of the rural petroleum system would be jeopardized. Even a small economic disadvantage could be devastating.

Alternatively, the after-tax economic benefits of such a fee which would accrue to domestic oil might be utilized for increased exploration and production. However, this artificial advantage would accrue solely to the benefit of those refiners already rich in domestic crude oil. Other domestic refiners would have even less capital to continue developing their own secure domestic crude oil supplies. Accordingly, their consumers will remain more vulnerable to disruptions, with severe regional shortages more likely in rural areas.

Fifth, these and other inequities inherent in an oil import fee would certainly lead to attempts to provide exemptions--for example, home heating oil and small refiners.

To deal with these exceptions on an ongoing basis would require a complex, unwieldy bureaucracy similar to that which was required to operate the crude oil entitlement program and other legacies of the price-controlled era.

Finally, there is only one way to make an oil import fee worse. Should petroleum product imports be exempted from such a fee, a major artificial distortion in the domestic petroleum industry would result. This loophole would stimulate a dramatic shift from crude oil to petroleum product imports.

While this development might temporarily benefit consumers, it would wreak havoc upon a domestic refining sector already struggling through major adjustments in the face of reduced demand. Domestic refining capacity would essentially be "exported," and the revenues generated by the fee program would be significantly reduced. The nation's ability to respond to oil supply disruptions would also be sharply restricted.

ENERGY TAX ALTERNATIVES:

Prefaced by the National Council's opposition to any new energy taxes, we would like to respond to the Committee's request for comments on other energy tax revenue-raising options. Any new energy tax would to some degree impact adversely upon agriculture and the general economy. However, other alternatives do serve to

reduce inequities and distribute the burden of increasing revenues more evenly across society. Adverse impacts on a depressed agricultural economy, and other negative consequences of any new taxes, must be weighed most carefully when considering the need for additional tax revenues.

An excise tax on both imported and domestic oil would not have to be as high to raise the same revenues as an oil import fee, since the full effects on domestic oil prices would accrue to the Treasury. Artificial distortions within the domestic petroleum industry would be reduced considerably compared with an oil import fee. However, other energy forms would still reflect similar increases in a deregulated environment, and an additional "non-marketplace" advantage would be provided to other energy forms. The latter consideration certainly would constitute a major energy policy, and as such should receive careful consideration by the Senate Committee on Energy and Natural Resources.

A tax on all fuels based upon the British thermal unit (Btu) content of the fuel does serve to spread the revenue burden across all energy forms, based on their physical energy value. However, a key decision would be at what point to place the tax. The temptation might be to apply the tax at the point of first purchase in order to hide the new tax from the ultimate consumer. However,

this conceivably could further aggravate serious economic problems faced by business and industry. In addition, other physical properties of various energy forms, such as transportability, storability and environmental properties, contribute considerably to the true energy value of an energy form. A Btu tax would also serve to minimize the artificial advantages which would accrue as a result of an oil tax to users within the same industry who consume other energy forms. The biggest obstacle to implementation of a Btu tax concept would be the development of a new infrastructure and procedures on a massive scale.

An ad valorem tax on all fuels is similar to a Btu tax in that it would spread the revenue burden across more users, thus incurring a lower cost per unit on each individual user. In addition, it does not venture into complex major issues, such as attempting to reduce the price disparity between natural gas and oil. The ad valorem tax also shares some of the problems of the Btu tax, in particular, point of taxation and development of a new infrastructure for gathering the tax.

An increase in the federal excise tax on gasoline and other motor fuels offers an advantage in that statutory authorities and procedures are already firmly in place. As a tax at the point of consumption, it is not a hidden tax on the consumer, and negative "ripple effects" are minimized. However, the 4¢/gallon tax presently in place has historically been dedicated

to highway construction and maintenance. We are concerned about the implications of increasing this tax on a permanent basis for general revenue needs.

NO ENERGY TAX IS A GOOD TAX:

In conclusion, none of the energy tax measures proposed can be supported by the National Council. We sympathize with the Committee's struggle to determine whether any new taxes are necessary. We would hope that any tax measure which is adopted distributes the burden as equitably as possible.

On a parting note, we must remember that the energy crisis is by no means over--it is merely in a fitful slumber. During the temporary oil glut of the last two years, we have had valuable time to increase our ability to respond to future disruptions. Unfortunately, an overall assessment of emergency preparedness capabilities strongly suggests that we are worse off now than before the Iranian shortage in 1979. With inventories down sharply and prices moving upward again, it is easy to envision a relatively minor shortfall somewhere in the world turning into another rapid price escalation. A serious question which must be considered at length is whether energy taxes to meet general revenue needs would not be vulnerable to retraction during such rapid price increases.

The National Council thanks you for the opportunity to offer our views on these important issues. We would be pleased to answer any questions you may have.

STATEMENT OF WILLIAM U. CHANDLER, WASHINGTON REPRESENTATIVE, ENVIRONMENTAL POLICY CENTER, WASHINGTON, D.C.

Senator DURENBERGER. Mr. Chandler

Mr. CHANDLER. Thank you, Senator. Secretary of Defense Casper Weinberger, in asking Congress for additional billions for a rapid deployment force to protect U.S. oil interests in the Middle East, said, "The umbilical cord of the Western World runs through the Strait of Hormuz into the Persian Gulf into the oil producing nations that surround it."

It is debatable whether we can protect that oil militarily. Nevertheless, it has seemed easier to focus on the other end of our lifeline rather than on our own end where our real opportunities exist.

An energy tax policy beginning even with a small energy tax could ultimately make an important contribution to our security. The Environmental Policy Center could endorse the imposition of a major tax on energy provided that a portion of the revenues from any such tax be used to lighten its burden on the poor. EPC believes that an energy tax would, with this caveat, combine good fiscal policy with good energy policy. An energy tax would enhance energy policy by internalizing in the price of energy some of the economic and national security costs of our energy use.

And an energy tax would aid fiscal policy not only by reducing the Federal deficit, but by making possible increased funding of social equity programs such as low income home weatherization and fuel assistance.

EPC has weighed the aspects of several proposed energy taxes and has found that the ad valorem oil and gasoline tax proposals are superior to either a Btu tax or an oil import fee. The Btu tax, for example, would discourage coal and natural gas use more than would an ad valorem tax. Conversely, an ad valorem tax would discourage oil use more than would a Btu tax.

Let me now summarize my written statement in eight additional points:

First, an ad valorem energy tax of, say, $10 billion on all energy sold to final users would save about half a million barrels of oil equivalent per day, and about half of this would actually be oil products.

Second, an oil tax of $10 billion on all refined products could save 400,000 barrels of oil per day. Some of this savings, however, would be realized in the form of switching to natural gas and, to a lesser extent, coal.

Third, the direct cost per average household of a $10 billion ad valorem tax on energy would be small. It would only be about $55. per year. And, for example, would drive up the cost of gasoline only about $0.02 to $0.03 per gallon.

Fourth, industry's share of either an ad valorem or Btu tax raising $10 billion per year would be $4.4 billion and $5.4 billion, respectively.

Fifth, any assertion that U.S. industry would be forced out of the country by an energy tax should be viewed skeptically. Even a Btu tax would increase annual energy cost to industry by only about 5

percent. And this means less than a 1-percent overall increase in total annual operating cost for heavy industrial energy users.

Sixth, total energy savings induced by a $10 billion energy tax would be relatively small—only about 1 percent of total U.S. energy demand. This strongly suggests the need for an energy tax larger than would be required for revenue raising, and for a rebate mechanism for preserving equity and promoting conservation.

Seventh, equity is badly served by our current meager efforts to assist the poor to respond to higher energy prices. The present level of funding for home weatherization, low income home weatherization, for example, will require 100 years to do the job that needs to be done.

My eighth and final point is that large revenues could and should be raised by eliminating all tax subsidies to energy investments. If Congress is unwilling to take this step, say to eliminate the oil depletion allowance, et cetera, it should act to equalize the 17 to 1 ratio of subsidies for production relative to consumption.

I would like to finish by thanking you for making the effort to consider combining energy and tax policies.

Senator DURENBERGER. Thank you very much.

[The prepared statement of William U. Chandler follows:]

Statement

of

William U. Chandler
Environmental Policy Center

before the

Subcommittee on Energy
and Agricultural Taxation

Finance Committee

U.S. Senate

Hearing On

ENERGY TAX OPTIONS

Washington, D.C.

June 9, 1982

I. INTRODUCTION AND SUMMARY

The Environmental Policy Center (EPC) could endorse the imposition of a major tax on energy--provided that a portion of the revenues from any such tax be used to lighten its burden on the poor. EPC believes that an energy tax would, with this caveat, combine good fiscal policy with good energy policy. An energy tax would enhance energy policy by internalizing in the price of energy some of the economic and national security costs of our energy use. And an energy tax would aid fiscal policy not only by reducing the federal deficit, but by making possible increased funding of social equity programs such as low-income home weatherization and fuel assistance.

EPC has weighed the theoretical and political aspects of several proposed energy taxes, and has found the ad valorem, oil, and gasoline tax proposals superior to either the BTU tax or an oil import fee. Specifically, we have found:

1. An ad valorem energy tax of $10 billion on all energy sold to final users would save about 500,000 barrels of oil equivalent per day, about half of which would actually be oil products.

2. An oil tax of $10 billion (on all refined products) could save 400,000 barrels of oil per day. Some of this savings would be realized in the form of switching to natural gas and, to a lesser extent, coal.

3. The direct cost per average household of a $10 billion ad valorem tax on energy would be $55 per year. A gasoline/diesel tax of $10 billion would cost the average household $70 per year.

4. Industry's share of either an ad valorem or BTU tax raising $10 billion per year would be $4.4 billion and $5.4 billion, respectively. Industry's direct costs would be lowest ($4 billion, annually) with a gasoline/diesel tax of $10 billion per year.

5. Any assertion that U.S. industry would be "forced out of the country" by an energy tax should be viewed sceptically. Even a BTU tax would increase annual energy costs to industry by only 5%; this means less than a 1% overall increase in total annual operating costs for heavy industrial energy users.

6. Total energy savings induced by a $10 billion energy tax would be relatively small--about 1 percent of total U.S. demand. This strongly suggests the need for an energy tax larger than would be required for revenue raising, and for a rebate mechanism for preserving equity and promoting conservation.

7. Equity is badly served by our current meagre efforts to assist the poor to respond to higher energy prices. The present level of funding for low-income home weatherization will require 100 years to do the job that needs to be done.

8. Large revenues could and should be raised by eliminating all tax subsidies to energy investments. If Congress is unwilling to take this step, however, it should act to equalize the 17 to 1 ratio of subsidies for production relative to Conservation.

II. EVALUATION OF ENERGY TAX OPTIONS

A. Why Tax Energy?

The question of why we would tax energy must be answered first in any evaluation of energy tax options. A BTU tax, for example, would reduce the use of coal and natural gas more than would an ad valorem tax, since these fuels cost much less than other fuels. Different types of taxes, of course, will bring about different results.

EPC believes that the two most important reasons to reduce energy consumption are to reduce pressure on the increasingly endangered Mid-East

oil fields, and to reduce the land, water, and air impacts of the production and use of energy. "Price does matter" in energy markets, and energy taxes would help convey the message to consumers that energy use is costly in terms of security and in environmental health. Moreover, a tax could help smooth out the erratic energy price path that we are on--one that inevitably will be steeper. The value of this would be to inject relative stability in energy markets in order to protect investments in conservation.

It has been argued that imported oil should be the essential target of energy tax policy. Many analysts, including the author, have written that gasoline, since it is by far our largest use of oil, should be first priority for conservation, and that this calls for a measure such as a gasoline tax. A large, mostly rebated gasoline tax would constitute a very useful energy policy. Other taxes, more easily imposed in the near future, could also produce beneficial results.

A tax on all oil products, in fact, might save more oil than a tax of equal magnitude imposed solely on motor fuel. (See table 3.) Demand for industrial and residential oil is more price-elastic. (See table 7.) Indeed, even an ad valorem tax on all forms of energy could save as much oil as a simple motor fuel tax. Table 3 compares the effectiveness of reducing energy demand by energy tax option.

B. Who Should Pay?

One may choose an oil import fee, oil tax, or motor fuel tax because one assumes that oil users create the most serious external costs and should thus be the ones to bear them. This may be a reasonable assumption. Similarly, one may endorse a BTU tax because one believes that all forms of energy have equal external costs--not a reasonable assumption. One can reasonably choose an ad valorem tax, alternatively, on the basis that the

price of energy largely reflects the value to society of saving energy. We believe that the ad valorem, oil tax, and motor fuel taxes may be endorsed for different, though valid, reasons.

The question then becomes, "Who would bear the burden under each tax plan?". Table 2 provides data for answering this question. Assuming that energy demand in 1983 is about the same as in 1981 and 1982, and then dividing a $10 billion tax (of each different type) by the quantity of energy on which the tax would fall, we can estimate the increase in fuel costs due to any tax. Note that the increase would be small, ranging from 2¢ per gallon (for any of several proposals) to 7 cents per gallon of gasoline (for a motor fuel tax).

The direct average cost per U.S. household of a $10 billion energy tax would range from approximately $40 per year under a BTU tax to $70 per year under a gasoline tax. (See Table 5.) The difference is due to the difference in how much of the burden industrial energy users would bear directly. This difference is important primarily in terms of perceived fairness, since private consumers will probably bear most of the cost of the tax in the end. This tax increase would be almost imperceptible to all but poor citizens.

The direct cost to industry (including freight transportation) would range from about $4 billion annually under an oil tax to $5.5 billion with a BTU tax. The ad valorem approach would cost industry $4.4 billion per year. (See Table 6.)

A central issue is whether the taxation of industrial energy use would drive industries "offshore", as it were, to other countries. This is extremely unlikely with a tax of only $5 billion on industry, since this sum amounts to less than 5 percent of annual industrial energy costs, and

to less than 1 percent of total annual operating costs of major energy-consuming industries.

III. FURTHER CONSIDERATIONS

A. Equity

We should use energy tax revenues to increase the low-income weatherization program to $2 billion per year. At the present rate of expenditure, more than 100 years will be required to weatherize the homes of all low income Americans. This situation is unacceptable in human terms. And it is bad economic policy to fail to make these conservation investments which would benefit all of society by reducing marginal energy demand and therefore marginal energy costs. Moreover, our failure to address the energy needs of the poor has led to the justification of energy pricing policies that have been counterproductive for everyone. To the extent that energy price increases are deferred to the future by price controls, we fail to make cost-effective investments. Energy demand remains higher and this ultimately costs society more because higher energy demand requires marginally more expensive fuels to meet requirements. This economic inefficiency translates into inflation that most hurts the poor. Worst of all, it seems it is the poor who fight our wars in disproportionately high numbers. Any policy tool that averts war for oil will benefit most those who would serve as soldiers.

B. Tax Policy

Energy supply and conversion tax subsidies total more than $10 billion per year. Oil and gas depletion allowances, expensing of intangible drilling costs, rapid depreciation of utility property, these and others allocate capital to supply at a rate 17 times greater than the tax code does for

conservation. We urge this committee to seriously consider "cleaning the slate" of all energy subsidies--including conservation and solar. If the Congress finds this impossible, it should at least equalize the treatment of conservation with supply.

C. Practicality

One item which this testimony has not addressed is the practicality of administering an ad valorem tax on end users without double counting. This issue deserves careful consideration.

D. National Security

Secretary of Defense Caspar Weinberger, in asking Congress for additional billions for a "rapid deployment force" to protect U.S. oil interests in the Mid-East, said that "The umbilical cord of the western world runs through the strait of Hormuz into the Persian Gulf and the oil producing nations that surround it." It is debateable whether we can "protect" that oil militarily. Nevertheless, it has seemed easier to focus on the other end of our lifeline, rather than on our own end where our real opportunities exist. An energy tax policy, beginning even with a small tax, could ultimately make an important contribution to our security.

Table 1

Energy Use Profile

Fuel	Percent of Demand by End Use	Percent of End Use Energy Costs
Oil		
- Gasoline	19	22
-Industrial Fuels	15	11
-Heating Oil	5	6
-Diesel for Freight Transport	12	13
Natural Gas		
- Industrial	15	10
- Buildings	14	8
Coal		
- Industrial	7	1.6
- Buildings	0.4	0.2
Electricity		
- Industrial	5	10
- Buildings	8	20
	100	100

Table 2

Estimated Effect of Energy Taxes on Energy Prices
[Price Increase; (% Price Increase)]

Fuel	Tax Plan								
	$10 billion BTU Tax			$10 billion Ad Valorem Tax			$10 billion Motor Fuel Tax		$10 billion Oil Tax		
Oil											
– Gasoline	2.3¢	per gal	(1.0%)	2.6¢	per gal	(2.3%)	7.1¢	per gal (6%)	3.9¢	per gal	(3.2%)
– Industrial Fuels	2.6	"	(3.7%)	1.9	"	(2.7%)	———		4.7	"	(5.2%)
– Heating Oil	2.4	"	(.2%)	2.9	"	(2.4%)	———		4.3	"	(3.6%)
– Diesel for Freight Transport	2.4	"	(.2%)	2.6	"	(2.2%)	7.0¢	per gal (5.5%)	4.3	"	(3.6%)
Natural Gas											
– Industrial	10¢	per MMBTU	(4.)	12¢	per MMBTU	(2.6%)	———		———		
– Buildings	18	"	(3.4%)	10	"	(.2%)	———		———		
Coal											
– Industrial	10¢	per MMBTU	(9.5%)	4¢	per MMBTU	(.2%)	———		———		
– Buildings	18		(4.4%)	9	"	(.2%)	———		———		
Electricity											
– Industrial	.06¢	per KWH	(1.2%)	.1¢	per KWH	(.2%)	———		———		
– Buildings	.06	"	(.1%)	.15	"	(2.3%)	———		———		

SOURCE: Environmental Policy Center

Table 3

Estimated Reduction of Energy Demand by Various Tax Proposals

Fuel	$10 billion AV Tax	$50 billion AV Tax	$10 billion Motor Fuel Tax	$10 billion Oil Tax
	[Barrels of oil Equivalent, in thousands; (% decrease)]			
Oil				
- Gasoline	40 (1)	250 (5)	125 (2.4)	70 (1.3)
- Industrial	90 (2.5)	470 (12.5)	----	250*(6.8)
- Heating Oil	30 (2.4)	150 (12)	----	50 (3.6)
- Freight Transportation Fuel	30 (1)	150 (5)	75 (2.3)	40 (1.3)
Subtotal	190	1020	200	410*
Natural Gas				
- Industrial	80 (2)	400 (10)	----	----
- Buildings	90 (2.4)	450 (12)	----	----
Subtotal	170	850	----	----
Coal				
- Industrial	40 (2.3)	200 (11.5)	----	----
- Buildings	---	---	----	----
Subtotal	40	200		
Electricity				
- Industrial	40 (2.6)	200 (13)	----	----
- Buildings	50 (2.5)	250 (12.5)	----	----
Subtotal	90	450		
	500 (1.4)	2520 (7)**	200 (0.6)	410* (1.1)

* This total overstates the net energy savings--much of this oil savings would be realized by fuel switching.

** Of total U.S. energy demand. This equals 9% of delivered (i.e., excluding conversion losses) energy demand.

AV= ad valorem. NOTE: See Table 7 for assumptions for price elasticities.

SOURCE: Environmental Policy Center

Table 4

Percent of Tax Burden by Fuel Type, Estimated by Tax Plan

Fuel	BTU Tax	Ad Valorem Tax	Oil or Gasoline Tax
Oil	51	52	100
Natural Gas	29	18	---
Coal	7	2	---
Electricity	13	30	---
Total[a]	100	100	100

[a] Totals may not add to 100% due to rounding.

SOURCE: Environmental Policy Center

Table 5

Estimated Average Annual Extra Cost per Family by Tax Plan

(Dollars)

Scenarios--By Type of Heat

Fuel	BTU Tax	Ad Valorem Tax	Oil Tax	Gasoline and Diesel Tax
Gasoline [a]	$ 22	$ 25	$ 40	$ 70
Electric Heat [b]	12	20	--	--
Other Electric [c]	5	10	--	--
Total	40	55	40	70
Gasoline	22	25	40	70
Natural Gas Heat [b]	12	5	--	--
Other Electric [c]	5	10	--	--
Total	40	40	40	70
Gasoline	22	25	40	70
Oil Heat [b]	12	15	20	--
Other Electric [c]	5	10	--	--
Total	40	50	60	70

a Assumes 1000 gals per year

b Assumes 68 MMBTU Thermal requirements per year; 20,000 kwh yr^{-1}

c Assumes 10,000 kwh per year

SOURCE: Environmental Policy Center

Table 6

Estimated Tax Burden on Industry
of Various Tax Proposals

(Billions of Dollars)

Fuel	BTU Tax	Ad Valorem Tax	Oil Tax[b]	Gasoline and Diese l Tax[c]
Oil (Process)[a]	$ 1.5	$ 1.1	$2.6	---
Oil (Freight Transport)	1.2	1.3	2.1	3.9
Natural Gas	1.5	1.0	---	---
Coal	.7	.2	---	---
Electricity	.5	.8	---	---
Total	$ 5.4	$ 4.4	$4.7	$ 3.9

a Assumes 40% #2 oil; 60% #6 oil.

b Assumes across-the-board oil tax would add $.31 $MMBTU^{-1}$ to price.

c Assumes tax would add $.57 $MMBTU^{-1}$ to price.

SOURCE: Environmental Policy Center

Table 7

Elasticities of Demand for Energy
(in percent)

A. Residential and Commercial

(Demand Changes)	(as price increases) Electricity	Gas	Oil
Electricity	-1.08	.02	.29
Gas	.92	-1.21	.51
Oil	.22	.81	- .97

B. Industrial

(Demand Changes)	Electricity	Gas	Oil	Coal
Electricity	-1.28	.73	.13	.14
Gas	.34	- .81	.14	.15
Oil	.34	.75	-1.32	.14
Coal	.33	.75	.14	-1.14

Note. Read this table in the following way: find the fuel for which you are interested in demand changes in the rows on the left. Read across to the colums for the percent change in demand for that fuel as a result of a 1% increase in the prices of the fuels shown in the columns. E.g., demand for residential gas increases .92% for every 1% increase in electricity price.

STATEMENT OF RICHARD C. PERRY, DIRECTOR OF HYDROCARBONS SUPPLY PLANNING, UNION CARBIDE CORP., ON BEHALF OF PETROCHEMICAL ENERGY GROUP, DANBURY, CONN.

Senator DURENBERGER. Mr. Perry.

Mr. PERRY. Mr. Chairman, I am Richard Perry of Union Carbide. Today I appear on behalf of the Petrochemical Energy Group or PEG, an ad hoc group of independent U.S. petrochemical producers. The petrochemical industry has several distinguishing characteristics. First, it's energy intensive and uses primarily oil and gas, both as raw materials and as fuel, frequently to the point where 25 to 30 percent of our selling price is represented by energy resource costs.

Second, the industry's effect on the U.S. economy is widely pervasive. Some 35 to 45 percent of overall U.S. business activity is dependent upon petrochemicals.

Third, the industry is internationally competitive and a large contributor to the U.S. balance of payments.

It's with these characteristics in mind that we have reviewed the call of this hearing. And we are appreciative of the opportunity to express some views on the various proposals, and especially their impact on consumers and on industry.

Our analysis and our experience with quotas and fees on imported oil in the past leads us to several general conclusions which we believe apply to virtually all of the energy tax alternatives which have been posed.

First, such taxes would mark a reversal of current national energy policy by turning us again toward more Federal price and allocation controls. We have been in the forefront of those supporting initiatives to get the Federal Government out of energy regulation. We vigorously supported the President's early action on oil decontrol. But we think that energy taxes would mark a significant return toward Federal control of energy prices. And, inevitably, a return of Federal allocation of energy as well.

There is the problem also of creating a great administrative burden and higher costs. Anyone who believes an energy tax, even one limited to imported oil, will be a simple means of raising revenue with minimum administrative complexity should look at the 1980 edition of the Code of Federal Regulations, which required 52 pages of single spaced small print, two columns per page, to set out the directly applicable regulations required to administer the oil import fee.

A second conclusion we draw is that such taxes for the purpose of better balancing Federal expenditures—a goal which we support—would mark a new and damaging approach to Federal tax policy. Unlike an income tax, for example, this energy tax would be paid alike by some industries with some profits or with no profits, by those who suffer from foreign competition or those who do not, by energy-intensive operations and by those relatively insensitive to energy costs. Therefore, the impact of an energy tax will vary widely and quite arbitrarily among industries and may even vary among competitors within the same industry.

Petrochemicals, for instance, will be doubly impacted compared with others because we use oil and gas not only for fuel but also for

raw materials. Yet the raw materials of other industries—steel, paper, for example—would not be taxed.

In sum, the impact of an energy tax on industry will be arbitrary and inequitable. And some regions of the country will be affected much more than others as well.

The third conclusion we draw is that because the U.S. petrochemical industry is heavily dependent on the use of energy resources both as fuel and feedstock, such taxes would have a serious adverse international competitive effect on this industry and on the many other industries which consume our products, since a tax on U.S. energy would drive the raw material cost of our industry above those of our foreign competitors.

As Mr. Chandler suggested, it may not take us out of the country, but it certainly would have a strong effect to deteriorate our positive contribution to the U.S. balance of trade, which in 1980 was over $10 billion.

Not only would our ability to contribute to the balance of trade be limited, but imports of foreign petrochemicals, which are now small, would increasingly flow into the United States.

In order to quantify these impacts, a study was conducted for PEG by Arthur D. Little, Inc., which analyzed a hypothetical circumstance where U.S. energy prices were taken appreciably higher than world prices. This study showed an increasingly serious impact over a period of time, not only on the health of the domestic industry, but its customers, its export trade, imports of petrochemicals, and earned investment patterns. We would be happy to make this study available to the committee staff should they so desire, Mr. Chairman.

In conclusion, in view of the strong likelihood of adverse economic impact, not only on our industry but on many other manufacturing sectors dependent on petrochemicals, we urge the committee to exercise great caution in turning toward energy as the preferred source of revenue for balancing Federal expenditures. However, if energy taxes are found to be a necessary element in a budget closure package, the high exposure and impact on individual sectors of the economy should be carefully analyzed and mitigated to the degree possible.

Thank you for the opportunity to testify.

Senator DURENBERGER. Thank you.

[The prepared statement of the Petrochemical Energy Group follows:]

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IMPACT OF ENERGY TAXES ON THE U.S. PETROCHEMICAL INDUSTRY AND THE U.S. ECONOMY

Testimony of the
Petrochemical Energy Group

Subcommittee on Energy
and Agricultural Taxation
Senate Committee on Finance

June 9, 1982
Washington, D.C.

I.

Introduction

Mr. Chairman, I am Richard C. Perry, Director of Hydrocarbons Supply Planning for Union Carbide Corporation. Today I appear on behalf of the Petrochemical Energy Group (PEG), an ad hoc group of independent U.S. petrochemical producers. While the U.S. petrochemical industry uses only a small volume (about 5%) of oil, refined products and natural gas liquids for its raw materials, the impact of petrochemicals on the U.S. economy and on the balance of payments is large. Some 35-45 percent of overall U.S. business activity is directly and indirectly dependent on the U.S. petrochemical industry, 1/ as measured by employment, capital investment, taxes and sales. 2/ Some 37 percent of U.S. exports are petrochemical or petrochemical dependent products. 3/

1/ The Petrochemical Industry and the U.S. Economy, A Report to the Petrochemical Energy Group by Arthur D. Little, Inc., December 1978.

2/ These statistics reflect the wide distribution throughout the economy of petrochemical products. Seventy-six percent of all rubber products, including the tires on virtually all U.S. passenger cars, are made primarily of synthetic rubber. Man-made fibers currently provide 75 percent of all fibers used in domestic textile mills for apparel, home furnishings, and industrial products. Petrochemicals go into 99 percent of our carpeting, 90 percent of our blankets, and 65 percent of our clothing. There are no substitutes for high performance plastics used in wiring insulation, in radios and electronic systems. Plastic films and packaging protect the freshness of food supplies and save millions of dollars in spoilage. Agricultural chemicals and fertilizers increase production.

[footnote continued]

We appreciate the opportunity to offer preliminary comments on the impact of the various energy tax proposals listed in the announcement of this hearing. Thus far, however, we have not seen specific legislative language or even outlines or legislative specifications. My comments, therefore, must be somewhat general. We look forward to supplementing the record as the specific details of the energy tax alternatives the Committee will consider become known.

Based on our initial analysis, our review of recent government studies, and based on the historic experience of the petrochemical industry with the quotas and fees imposed on imported petroleum from the mid-1950's until 1979, I believe the following conclusions are justified regarding virtually all of the energy tax alternatives listed in the announcement of this hearing:

- Such taxes would mark a reversal of current national energy policy by turning us again toward federal price and allocation controls.
- Such taxes for the purpose of balancing federal expenditures would mark a new and damaging approach in federal tax policy.
- Because the U.S. petrochemical industry is heavily dependent on the use of energy resources, both as fuel and feedstock, such taxes could have a seriously adverse affect on this industry and on the many other industries which consume significant quantities of petrochemicals.

[footnote continued from previous page]

Construction materials, from paints to insulation to structural materials and glues, contribute to new, energy efficient buildings, while pharmaceuticals and other medical products, the majority of which are derived from petrochemicals, are essential to the nation's health needs.

3/ Arthur D. Little, Inc., 1980 Petrochemical Industry Profile, August 1, 1981.

II.

Return to Federal Price and Allocation Controls

Our industry has been in the forefront of those supporting the President's initiatives to get the federal government out of the business of regulating energy markets. We vigorously supported his early action to decontrol oil. Our industry has also worked for elimination of federal controls in the natural gas market. Energy taxes would mark a significant return toward federal control of energy prices and inevitably a return of federal allocation of energy.

The price and use of energy can be controlled through taxation just as surely as through the ceiling price regulations and entitlements programs the President has terminated. To give one example, a tax would impose artificial disincentives to the use of the taxed fuel or fuels. If a tax is imposed only on imported and domestic oil, clearly the government will be providing a strong incentive for industrial and residential consumers to switch to natural gas. Taking another example, by establishing a tax exemption for certain kinds of users, perhaps for residential heating oil users, small refiners, or other groups that have in the past received special consideration, a tax program will provide government benefits for certain activities. If the past history of the Mandatory Oil Import Program or the crude oil entitlements program is any guide, such exemption programs can be expected to grow in scope and in complexity over time.

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The crude oil entitlements program was originally devised to allocate the benefits of lower-priced domestic crude oil among all refiners. But it was expanded repeatedly so that among the beneficiaries of the program were, for example, those who used shale oil, 4/ produced ethyl alcohol from biomass, 5/ produced solid fuel from municipal solid wastes, 6/ used methane produced from municipal sewage or domestic landfills, 7/ and other worthy activities designated from time to time by the government. An energy tax will invariably cast government policy makers again in the role of deciding who gets which energy supplies and how much they pay for them. We believe this function can most efficiently be performed by market forces.

In addition there is the problem of creating more administrative burdens and costs. Anyone who believes an energy tax, even one limited to imported oil, will be a simple means of raising revenue with minimum administrative complexity should look at the 1980 edition of the Code of Federal Regulations in Volume 10 which required 52 pages of single spaced, small print, two columns per page, to set out only the directly applicable provisions of regulations required to administer the oil import fee. 8/

4/ 10 C.F.R. 211.67(a)(5)(i)(A) (1980).

5/ 10 C.F.R. 211.67(a)(5)(i)(C) (1980).

6/ 10 C.F.R. 211.67(a)(5)(i)(D) (1980).

7/ 10 C.F.R. 211.67(a)(5)(i)(E) (1980).

8/ 10 C.F.R. Part 213 (1980).

III.

Damaging, New Tax Policy

One of our great concerns regarding most of the energy tax alternatives under discussion is that they represent a very different approach to balancing federal expenditures than has been employed in the past. The previously imposed oil import fee was justified on grounds of national security. 9/ The taxes being discussed today are advocated principally as a means of balancing federal expenditures. Unlike an income tax, this energy tax will be paid alike by industries with some profits or no profits, by those who suffer from foreign competition and those who do not, by energy intensive operations and by those relatively insensitive to energy costs.

Therefore the impact of an energy tax will vary arbitrarily among industries and may even vary among competitors within the same industry. For example, the petrochemical industry will be doubly impacted compared with other industries because we use oil and gas not only for fuel but also for our raw materials. Our consumption for raw materials is in fact greater than our consumption for fuel. Yet the raw materials of other industries, steel or paper for example, will not be taxed.

Within an industry there may be a significant variation in tax impact among different competing companies, particularly if one fuel, e.g., crude oil is taxed but other

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9/ 19 U.S.C.A. § 1862(b) (1980).

fuels are not. Those plants which happen to use the taxed fuel will suffer increased costs vis-a-vis competitors using a fuel not taxed. In sum, the impact of an energy tax on industry will be arbitrary and inequitable. Some regions of the country will be affected much more than others.

IV.

Impact on the U.S. Petrochemical Industry and the Economy

Our industry has long been a strong, positive contributor to the U.S. balance of trade. In 1980 the contribution amounted to over $10 billion. A tax on U.S. energy would drive the raw material (or feedstock) costs of the U.S. petrochemical industry above those of our foreign competitors. Not only will our ability to contribute to a favorable U.S. balance of trade be limited but foreign petrochemical products will increasingly flow into the United States to replace the capacity that U.S. producers forfeit. Also, new petrochemical investment will be forced abroad.

Since our industry is a basic industry, the impact of tax-induced, high cost energy and feedstocks will be felt beyond the petrochemical industry. Industries dependent upon petrochemicals and petrochemical products include textiles and apparel, furniture, building materials, appliances, motor vehicles, rubber and plastic products to name just a few. These industries would also be hard hit by a policy which increased U.S. energy costs.

A study conducted early in 1981 for the Petro-

chemical Energy Group by Arthur D. Little, Inc. 10/ analyzed the impact of a high cost energy scenario on both the petrochemical and the petrochemical consuming industries. The study compared a base case energy price scenario with a case in which U.S. energy costs as a result of government action were artificially increased 20-40 percent above the base case and above energy and feedstock costs outside the United States. The study showed an increasingly serious impact of high cost energy over time.

By 1985 annual domestic demand for petrochemicals was reduced by 11.9 percent, petrochemical investment by 18.6 percent, the petrochemical trade balance was off 15.6 percent and the output of petrochemical dependent industries was off 4.8 percent. By 1995 annual petrochemical demand was off 14.4 percent, petrochemical investment was off 20.9 percent, the petrochemical trade balance had declined by 20.9 percent and the value of petrochemical dependent industry shipments was off by 7.8 percent representing a difference from the base case of 80.6 billion dollars for the year.

A. Impact on Petrochemical Consuming Industries

I have mentioned the large projected impact on aggregate production of petrochemical dependent or consuming industries of artificially high cost energy. But these average figures disguise the even more devastating impact of

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10/ Arthur D. Little, Inc., The Impact of Changing U.S. Feedstock and Energy Costs on the Petrochemical Industry and the Economy, April 1981 (herinafter ADL Impact Study). This report is in the official committee file.

high energy costs on certain industry sectors. Some sectors are hit even harder than the petrochemical sector. For example, the furniture industry is forecast to show in the year 1990 a loss in production value over the base case of $752 million or 13 percent, building materials of $4.3 billion or 17 percent, motor vehicles of $9.8 billion or 6 percent, and boats, motor homes and recreational vehicles of $2 billion or 22 percent. Our own industry's production in 1990 would decline by $6.3 billion or 11 percent. 11/

B. Depressed U.S. Investment Levels

The ADL Impact Study analyzed the period 1965-1972 when the Mandatory Oil Import Control Program was in force and demonstrated that the higher costs of energy and feedstocks in the U.S. during that period had a significant long-term impact on U.S. and world-wide petrochemical investment. During that period U.S petrochemical investment per dollar of annual sales was substantially below that in Western Europe and Japan. The annual growth of U.S. petrochemical investment was only 2.1 percent 12/ per year from 1965 through 1972 under the MOIP compared to annual growth of 20.4 percent during the period 1972-1978, after limitations on oil imports were removed and U.S. energy and feedstock costs were fully competitive worldwide.

11/ All data in Section IV-A is from the ADL Impact Study, Appendix G, p.77.

12/ In current dollars.

C. Increased Investment Abroad

The restriction of U.S. chemical producers' access to world price crude oil and naphtha feedstocks during the 1965-1972 period also resulted in increased overseas investment by U.S. chemical companies, from 24 percent of total U.S. investment in 1966 to 31 percent in 1972. Only after chemical producers were allowed "free access" to heavy liquid feedstocks in 1972, did the share of total spending that had gone abroad decline.

D. Long Term Impact on U.S. Chemical Exports

The Artuhr D. Little study further demonstrates that the reduced investment pattern of the U.S. petrochemical industry during 1967-1972 had a profound effect on world trade thereafter. For example, in 1970 net exports of chemicals for the U.S. and Europe were about equal at $2.6 billion per year. By 1979 European net exports equalled $18 billion per year while the U.S. balance of trade in chemicals was just under $10 billion. The overwhelming dominance of Europe in today's world export market for chemicals and its favorable balance of trade position are clearly the result of its ambitious investment program during the years 1960-1972.

We have attached the full text of the Arthur D. Little, Inc. study to our prepared testimony. We will be happy to discuss these results of our consultant's study in more detail with the Committee Staff at your convenience.

V.

Conclusion

In view of the strong likelihood of adverse economic impact not only on our industry but on many other manufacturing sectors, we urge the Committee to exercise great caution in turning toward energy as the preferred source of revenue for balancing federal expenditures.

If energy taxes are found to be a necessary element in a budget closure package, the high exposure and impact on individual sectors of the economy should be analyzed and mitigated to the degree possible.

We appreciate the opportunity to offer these comments and look forward to supplementing this record when and as specific details of energy tax alternatives are developed.

STATEMENT OF RICHARD LUDWIG, VICE PRESIDENT, ENGINEERING, HAMMERMILL PAPER CO., ERIE, PA., ON BEHALF OF AMERICAN PAPER INSTITUTE

Senator DURENBERGER. Mr. Ludwig.

Mr. LUDWIG. Thank you, Mr. Chairman. My name is Dick Ludwig. I work for Hammermill Paper Co. And I am here representing the American Paper Institute. I hasten to add that we are the other API. [Laughter.]

Let me begin by saying that there is no doubt that any increase in energy taxes will have an adverse effect upon costs and inflation rates in this country. Therefore, we have tried to write our view of these proposals from terrible to merely bad.

We also recognize the need for both businesses and individuals to continue efforts to conserve fossil fuel. What should be avoided, however, are tax increases which discriminate against specific sectors of the economy and place them in an unfair and noncompetitive position.

The paper industry is an energy intensive industry. We are, consequently, opposed to taxes that discriminate against industries of our type. For example, why should energy-intensive industries bear a greater burden than labor-intensive industries. Additional taxes on energy make no more sense than additional payroll taxes. For example, our principal reasons for appearing today are to mention that the energy-intensive industries, such as paper, petrochemicals, and so forth, would absorb an undue share of the increased taxes without economic justification or benefit. We see taxes on alternate

fuels, to oil and natural gas, which would discourage desirable switching and conservation of petroleum fuels.

Finally, taxes limited to oil alone would widen the difference between the cost of unregulated oil and partially regulated natural gas. Because these two fuels are often substitutable for each other, any tax consideration should apply equally to both.

The proposal we find the least palatable is that which would place a Btu tax on all energy consumption. Not only would it impact our industry more severely because over half of our energy comes from waste products, such as black lick and bark and so forth, the other problem is how do you measure all this. The determination, accounting, and auditing of such a spread of values would be a colossal undertaking. We would spawn a "hugmongous" bureaucracy just to keep track of all these numbers.

Look at coal. The Btu count of coal, for example, ranges from 5,000 Btu's per pound to 15,000 with all sorts of grades in between. A truly colossal and monumental accounting problem.

Looking at the oil import fee—an oil import fee of $5 a barrel will have a direct cost to our industry of about $75 million a year, plus the indirect cost of purchase materials and additional transportation which could relate to three or four times that amount. However, cost is not the big problem. We looked at a disproportionate burden being borne by New England, the mid-Atlantic and Midwestern States that would severely impact their ability to compete not only with the rest of the world but with the rest of the country.

An oil excise tax across all sources of petroleum within this country is somewhat less discriminatory but still has that aspect to it.

A gasoline tax, we feel, has a relatively small effect on the benefit side, plus perhaps these revenues, as Mr. Symms said, should be delegated to our transportation stations which are in bad shape.

Our view, therefore, is that we feel if Congress determines that a tax on energy must be enacted as one of the pieces of legislation that some form of excise tax upon fuel derived from petroleum and natural gas across-the-board would be the most equitable. It would be applied only to the first sale of such commodities. It would be based on the volume of such commodities, but adjusted for Btu content. It would be limited to a 3-year period of time, perhaps fiscal years 1983–85, to permit us time to get out of our present economic mess. And would be accompanied certainly by concurrent further major reductions in the growth of Federal spending.

We also feel there should be a revenue cap if, in fact, such an energy tax is enacted, with a reasonable linkage to some other yardstick, such as GNP, in order to determine the total amount.

Sir, we thank you for the opportunity. We sympathize with you for drawing the short straw for this late afternoon session. And we agree that all of us should pull up our socks and get about working toward our highest national priority, which is economic recovery.

Senator DURENBERGER. Thank you, Mr. Ludwig.

[The prepared statement of Richard Ludwig follows:]

TESTIMONY BEFORE THE SENATE FINANCE COMMITTEE
SUBCOMMITTEE ON ENERGY AND AGRICULTURAL TAXATION
ON ENERGY TAXES
BY THE AMERICAN PAPER INSTITUTE
JUNE 9, 1982

I am Richard M. Ludwig, Vice President, Engineering, of the Hammermill Paper Company, based in Erie, Pennsylvania.

I am appearing before this Subcommittee on behalf of the American Paper Institute, the national trade association of the U.S. pulp, paper and paperboard industry. The Institute's approximately 175 member companies manufacture more than 90% of the nation's pulp, paper and paperboard output.

The problem of growing budget deficits and the need for consideration of tax increases are recognized by the paper industry. The members of the American Paper Institute have actively and consistently supported the thrust of the President's economic recovery program; namely, to curtail the increase in federal outlays and to increase revenues through savings, investment and faster economic growth.

Let me begin by saying there is no doubt that any increase in energy taxes will have an adverse effect upon costs and inflation rates in the nation.

We also recognize the need for both business and individuals to continue efforts to conserve fossil fuel. What should be avoided, however, are tax increases which discriminate against specific sectors of the economy and place them in an unfair and non-competitive position.

We believe some of the proposals under consideration in this Subcommittee would have harmful effects on the energy intensive paper industry by raising its costs proportionately more than other industries, resulting in higher prices, lower profitability and loss of markets. This is particularly relevant for international markets where the cost competitiveness of the U.S. industry is already undermined by currency values. The paper industry is consequently opposed to taxes which discriminate against industrial energy users. Our principal reasons are as follows:

1. Energy intensive industries, such as the paper industry, would absorb an undue share of the increased taxes, without economic justification or benefit.

2. Taxes on alternate fuels to oil and natural gas would discourage desirable switching and conservation of petroleum fuels.

3. Taxes limited to oil alone could widen the difference between the cost of unregulated oil and partially regulated natural gas. Because these two fuels are often substitutable for each other, any tax consideration should apply equally to both.

BTU TAX ON ALL ENERGY CONSUMPTION

While pulp and paper making processes require large amounts of energy, the industry has reduced its dependence upon fossil fuels by using its own wood and process residues as sources of fuel. Through fuel switching and conservation, the industry has reduced its consumption of purchased energy per unit of production by 31% since 1972. These conservation results have not been free of industry costs; we have made large investment outlays in energy productivity improvement. Those investments are now

estimated to be 9% of the industry's capital outlays, which suggests that the industry is spending more than $500 million a year directly on further gains in its energy efficiency. In fact, through the use of biomass and internally generated power, including cogeneration and hydro, the paper industry now supplies approximately 50 percent of its total BTU requirements.

A tax on overall BTU consumption would run counter to current national policy which encourages energy productivity investments. For example, the industry uses more coal and biomass as an energy source now than 10 years ago. These investments were made to reduce the U.S. dependence upon foreign oil - a worthy goal. The use of coal and biomass is, as a general rule, less efficient than oil and gas and consequently increases total BTU's per ton of paper produced.

Consequently, we oppose the idea of a BTU tax on all energy consumption. Specifically, a BTU tax would discourage the use of non-petroleum fuels such as coal and biomass and have an adverse affect on national policy to encourage cogeneration. This efficient means of generating power should not be penalized through the imposition of a broad BTU tax. Indeed, one of your colleagues, Senator Packwood, has sponsored legislation which would extend the tax credit for investments in cogeneration through 1985. We support, and urge you to support, his initiative.

The BTU tax would also require the federal government to cope with the enormous detail of auditing and enforcing such a tax. The legislative and regulatory procedures required for such an undertaking are incomprehensible. Therefore, not only would such a tax be philosophically counterproductive, it would be administratively unworkable.

OIL IMPORT FEE

An oil import fee of $5 a barrel would have a direct cost to the paper industry of almost $75 million a year. The indirect cost in terms of purchased materials and additional transportation costs could be 3 to 4 times that amount. However, cost is not the only problem. Mills located in New England, the mid-Atlantic and mid-western states, areas that rely heavily on imported oil, might have to absorb a disproportionate share of the cost increase. These mills experienced severe cost problems in the 1973-80 period when only domestic oil prices were controlled, requiring a cumbersome price equalization program. Although domestic oil prices are expected to rise in tandem with a higher import price, this is not certain. Distortions could reappear, exacerbating the problems of recession-ridden and cyclical industries in an already weakened economy.

OIL EXCISE TAX

An excise tax on all oil used might have less discriminatory effects than the alternative oil import fee which would apply to only about one-third of the nation's current level of oil consumption.

GASOLINE TAX

Since motor fuel use in the paper industry is relatively small, a tax on these fuels would have a minor direct impact compared with other energy taxes being considered by this Subcommittee.

PAPER INDUSTRY VIEWS

While taxes on energy seem feasible to accomplish the objective of raising revenue, we believe that a more broadly-based group of excise taxes may be more equitable than the proposed taxes on energy alone.

Such excise taxes, if enacted, should be temporary, for a three year period at the most, with a firm commitment to ending them in 1985.

By that time the Congress and the Administration will have had time to assess the benefits of the new economic program which was put into effect only eight months ago and is still in its early stages.

The intervening time could also be well used by Congress and the Administration to study national energy policy within the emerging economic, political and international framework. Hastily and ill-conceived energy taxes could defeat their intended purpose of temporarily raising revenue by reducing the investment and growth potential of industries like the paper industry.

If Congress determines that a tax or taxes on energy must be enacted as one piece of the temporary economic remedy needed to reduce the projected Federal deficits during the next few years, some form of excise tax on fuel derived from petroleum and natural gas across the board could be the most equitable and viable measure. Such a tax should:

1. Be applied only to the first sale of such commodities.
2. Be based on the volume of such commodities but adjusted for BTU content.
3. Be limited to a three year period of time (F.Y.'s 1983, 1984 and 1985).
4. Be accompanied by concurrent further major reductions in the growth of Federal spending.

Such a tax is best designed to ensure that all facets of the economy are contributing to our highest national priority — economic recovery.

Senator DURENBERGER. Let me thank all of the witnesses. And let me just speak to the short straw for a minute. I have been on this committee now for 3½ years, I guess, and we have addressed an awful lot of tax legislation in the time that I've been here. But for the most part, I have the comfortable feeling that we were dealing with tax policy. And particularly, last year—some will say there's an exception in 5-10-10 or something like that—but generally speaking, we went away from that process. I think everybody around this table felt very good about the fact that we were turning the country in the right direction by starting to change tax policies.

This year, however, I feel like I am a member of somebody's State legislation and I am just sitting here trying to shove spending down or taxes up in talking about cigarette taxes and luxury taxes, and all the kinds of things a lot of people here graduated from when they were back in the State legislatures in this country. So I have some sympathy for your views, and the need for you to be here today testifying on these. But it's important.

I want to ask my question relative to the testimony that came from a previous panel. And ask either one of you or all of you to respond to the question: Why is it that the natural gas industry in this country is the only one that wants us to impose an import fee or a major tax on imported oil? Is it a fact that if we did that we would exert downward pressure on the prices of world oil? Is it a fact that we would enhance competitiveness in energy? We would enhance the development of domestic energy resources? That we would reduce our Nation's balance of trade? All of these sound like terrific things. Is all that factual or am I missing something somewhere? Anybody want to respond to that?

Mr. CHANDLER. Without trying to determine what AGA's motives would be in endorsing an oil import fee, I guess I would say that it is probably their statesmanlike approach to equalizing the treatment of the Federal Government of the prices of energy. And to that extent, since natural gas prices are still controlled and held below their real market value, it could have a positive benefit on the well-being of the country.

Senator DURENBERGER. Is it, in your opinion, then an offset to the failure to deregulate natural gas entirely?

Mr. CHANDLER. Very small, I would say.

Senator DURENBERGER. Anyone else want to comment on that?

Mr. PERRY. Again, without knowing what the motives of the gas industry are, they have been regulated for an extended period of time and have enjoyed and still do enjoy significant price advantages over many other fuels. The soft markets of the past year have narrowed that advantage in a number of respects. And perhaps they might feel a bit more threatened than they did in the past so I think it not surprising that they might turn a preferential means of maintaining an advantage which has been enjoyed by the gas industry for an extended period.

Senator DURENBERGER. Well, is it possible that there is some national energy policy in their suggestion? That the suggestion might be that controlled natural gas prices are good for energy competition in this country? But there seems to be political reasons, at least on the part of some, for not supporting the speedup of deregu-

lation. And that, in effect, an import fee would have none of the down side that some of the people, including some of the witnesses here, claim for it. And would have some up side in terms of expanding people's energy options.

Mr. PERRY. I'm glad you mentioned the natural gas price deregulation because that is another energy option, if you will, that wasn't on the list that this committee put forward, which certainly has to be recognized as one possibility for raising additional revenue. Were one to go ahead with speedier natural gas price deregulation, that in itself would bring in additional tax revenues.

We find it difficult to see that it is either good tax policy or good energy policy to extend regulation to a now decontrolled sector of the energy spectrum which has behaved just as you would hope markets would behave in the past year. And that it would be far better to move in the direction of deregulating that portion which remains regulated rather than undertaking additional more pervasive regulation.

Senator DURENBERGER. Let me ask one last question. Maybe Mr. Chandler and perhaps Mr. Hofstad might react. I take it, Mr. Thompson, that you are sitting in for Ralph.

We ended the last panel talking about new industry in Kansas, that is, were the rich only buying big cars or is there some need for a reinvigorated conservation policy in this country. And if we are going to make some policy—I know Steve Symms feels strongly about it; I do too—that there is an opportunity with the Federal gas tax, which is now $0.04, to do something major both in the way of revenue raising—appropriate expenditures in the area of transportation and transportation alternatives—and in the area of conservation. But someone said earlier in the day that that's the least desirable from a politician's viewpoint. I happen to be a politician up for reelection in a State whose highways are being closed down because of the potholes and whose transit systems are being defunded. And I don't see it as a particular political liability. But leaving that aside, would you recommend to us that we seriously explore some increases? And, if so, to what purposes might the funds raised be devoted?

Mr. CHANDLER. I think that there is a real need for Federal policy in the fuel economy area. If you look at how far Europe, for example, has gone with automobile fuel economy, despite the fact that prices in Europe are equivalent of $2 to $3 per gallon higher than here because of taxes—the average fuel economy in Europe is only 30 miles per gallon or so. It is technically possible and economically feasible to go to 50 or 60 miles per gallon. But I don't think the market itself alone will take us there. I am not sure what the policy is at this point. But I think we ought to be seriously thinking about what kind of assistance to the automobile industry or what kind of market intervention would be useful to help us to get above 30 miles per gallon.

Senator DURENBERGER. Mr. Thompson, one of the reasons I know we have stayed off the accelerated deregulation of natural gas is its impact on agriculture. One of the many reasons probably that has been offered for it. One of the reasons to object to a broad based energy tax is its impact on the agricultural side of the economy. What's your opinion about an excise tax on gasoline?

Mr. THOMPSON. We think it would be, as Ralph indicated earlier, certainly less onerous than an oil import fee. Let me reiterate that farmers are in a position right now where, whether you measure it by net income or by a parity analysis rationale, they are as bad off as anytime since the Great Depression. So the attitude that I perceive from 210,000 farmers in our specific membership is one that says we are paying a cost and we are willing to pay more in cooperation with whatever it takes to deal with the critical issue that is No. 1—and that is interest rates.

For instance, if you relate it to fuel usage per acre—about 7.23 gallons of diesel fuel to put corn that you hope will derive a 100-bushel-an-acre yield—you add that up and you are talking roughly about $4,000. And you figure the interest on that in the form of an operating loan. And it tells you real quickly that that farmer, even though he does not want new taxes, if it helps you deal with the dilemma of facing the deficit situation that we are in, he would say let's go ahead and take our share. But he would do so reluctantly because the condition he is in right now is one of near death.

Our records show right to this time that we are losing one farmer a day to bankruptcy in our membership alone.

Senator DURENBERGER. I am assuming we maintain the agricultural exemption so that the farmers not paying any other tax now wouldn't pay any tax in the future to put diesel in his tractor. It would have some impact on the transportation part of the agricultural sector.

Well, I don't have any further questions. Mr. Chairman, welcome back.

Senator WALLOP. Thank you. And I regret that I was not here for your testimony. I will review it. I genuinely appreciate you coming here to lend us a hand with a very difficult issue. The old adage about raising taxes in a recession is plainly true. You know, it's hard to go to find those areas that are not experiencing a recession and get additional revenue from them and not put them into a recession at the same process. I appreciate your willingness to come here, and I will read your testimony.

Mr. PERRY. Well, we appreciate your efforts on behalf of additional energy tax credits. Maybe in another life time.

Senator WALLOP. Another life time.

I also want to thank Senator Durenberger for sitting in on my behalf.

Senator DURENBERGER. I drew the short straw. [Laughter.]

Senator WALLOP. Next is a panel consisting of Mr. Peter Koltnow, president of the Highway Users Federation; Ms. Katherine Hall, staff attorney, and Gerald Donaldson of the Highway Safety Project Researcher, Center for Auto Safety, Washington, D.C.; Dr. Mark Cooper, director of research, Consumer Energy Council of America; Mr. William Toohey, vice chairman, Travel and Tourism, Government Affairs Policy Council and president of the Travel Industry Association of Washington, D.C.; and Mr. Paul R. Ignatius, president and chief executive officer of the Air Transport Association in Washington, D.C.

Welcome and thank you for your patience. We will now hear from Mr. Koltnow.

STATEMENT OF PETER KOLTNOW, PRESIDENT, HIGHWAY USERS FEDERATION, WASHINGTON, D.C.

Mr. KOLTNOW. Mr. Chairman, I'm Peter Koltnow, president of the Highway Users Federation. The federation is a national coalition of businesses, industries and associations which are the chief users of highways, and the main producers of highway transportation products and services.

Our members share your desire to reduce Federal budget deficits in order to strengthen the Nation's economy. But as businessmen, they are concerned that a budget balancing energy tax might inadvertently create transportation and other conditions that counteract an improved economy.

Two key principles have guided our reaction to the energy tax option set forth in the announcement of this hearing. These are:

First, major new taxes for general public purposes should have the widest possible base and should fall equitably among taxpayers. An energy tax for general purposes should not be imposed on any single fuel or product. If an energy tax is needed as part of a larger tax package, it should be imposed fairly on all major energy sources.

Second, new taxes should not disrupt well-established and accepted patterns of taxation or charges for public services. A specific example is Federal and State highway users fees.

The two tax options that impose oil import fees or excise taxes on oil conflict with both of these principles. Oil use is not uniform around the country or among economic groups. Many oil consumers, particularly transportation users, have no alternatives while others could escape these taxes by shifting energy sources. Special oil taxes would further interfere with marketplace decisions about energy use. It could offset the improvements that have stemmed from decontrol and other measures that have restored market forces to petroleum use and distribution.

We feel the price of energy should continue to reflect its true market value in order to encourage conservation, insure responsible allocation and stimulate increased supplies.

The two tax options that call for more broadly based energy taxes eliminates some of the problems of oil only tax options, but their workability, their practicality, is unknown to us at this time.

The fifth of these general fund energy tax options would have a direct and seriously damaging effect on the Nation's highway transportation system. This is an increased excise tax on gasoline and other motor fuels. At present such taxes enjoy strong public support at both the State and Federal level because they are clearly perceived as user charges imposed for the construction and upkeep of the Nation's roads, and are usually dedicated to highway trust funds.

Evidence of public support for highway earmarked fuel taxes can be seen in the States. Contrary to the general pattern of State tax limitation in the last several years, State highway user tax charges have been widely and substantially increased to deal with serious road problems. The recent pace of motor fuel tax hikes has been unprecedented, with 22 States increasing such taxes last year alone.

A new Federal motor fuel tax for general fund purposes would effectively preempt the funding source that since 1919 has been largely reserved for highways, especially in the States. We would then not be able to address the Nation's well documented highway needs.

Mr. Chairman, good roads are themselves a cornerstone of America's economy. You can't have a first-class economy with a second-class road system. Highway user charges have traditionally paid for roads. Energy taxes that undermine dedicated highway user charges will create long-term problems for Congress and the States in attempting to get the American economy back on its feet. Increased highway user charges, which we have strongly supported before the Congress and in the State legislatures, should continue to be earmarked for the kind of Federal aid highway program the future demands.

Thank you.

Senator WALLOP. Thank you, Mr. Koltnow.

[The prepared statement of Peter G. Koltnow follows:]

PREPARED STATEMENT OF PETER G. KOLTNOW, PRESIDENT, HIGHWAY USERS FEDERATION

I'm Peter Koltnow, President of the Highway Users Federation, a national and long-standing coalition of businesses, industries and associations working to make America's highway transportation systems safer and more efficient. Our members are the chief users of highways, and the main producers of highway transportation products and services.

Our members share your desire to reduce federal budget deficits in order to strengthen the nation's economy. But as businessmen, they are concerned that a budget-balancing energy tax might inadvertently create transportation conditions that counteract an improved economy.

Two key principles have guided our reaction to the energy tax options set forth in the announcement of this hearing. These are:

1. Major new taxes for general public purposes should have the widest possible base and should fall equitably among taxpayers. An energy tax for general purposes should not be imposed on any single fuel or product whether gasoline, crude oil, imported oil, natural gas or coal. If an energy tax is needed as part of a larger tax package, it should be imposed fairly on all major energy sources.

2. New taxes should not disrupt well-established and accepted patterns of taxation or charges for public services. A specific example is Federal and state highway trust funds.

The two tax options that impose oil import fees or excise taxes on oil conflict with both of these principles. Oil use is not uniform around the country or among economic

groups. Many oil consumers, particularly transportation users, have no alternatives, while others could escape these taxes by shifting energy sources. Highway users would be particularly affected since almost half of all oil is for motor fuels.

Imposition of special oil taxes would further interfere with marketplace decisions about energy use. It could offset the improvements that have been derived from decontrol and other measures which have restored market forces to petroleum use and distribution. The price of energy should continue to reflect its true market value in order to encourge conservation, ensure responsible allocation and stimulate increased supplies.

The two options that call for more broadly based energy taxes eliminate some of the problems associated with petroleum-only tax options but their workability is unknown to us at this time.

The fifth of these general fund energy tax options would have a direct and seriously damaging effect on the nation's highway transportation system. This is an increased excise tax on gasoline and other motor fuels. At present such taxes enjoy strong public support at both the state and federal levels because they are clearly perceived as user charges imposed for the construction of upkeep of the nation's roads and usually dedicated to highway trust funds for that purpose.

Evidence of public support for highway earmarked fuel taxes can be seen in the states. Contrary to the general

pattern of state tax limitation in the last several years, state highway users charges have been widely and substantially increased to deal with serious road problems. The recent pace of motor fuel tax hikes has been unprecedented, with twenty two states increasing such taxes last year alone.

A new federal motor fuel tax for general fund purposes would effectively preempt the funding source that since 1919 has been largely reserved for highways, especially in the states. We would then not be able to address the nation's well documented highway needs.

Mr. Chairman, good roads are themselves a cornerstone of America's economy. You can't have a first-class economy with a second-class road system. Highway user charges have traditionally paid for roads. Energy taxes that undermine dedicated highway user charges will create long term problems for Congress and the states in attempting to get the American economy back on its feet. Increased highway user charges, which we support, should continue to be earmarked for the kind of Federal-aid highway program the future demands.

Tax policy is but one tool to help restore the country's economic health. Another is the improvement of the nation's physical structure, including highways, in order to increase productivity.

AMERICAN AUTOMOBILE ASSOCIATION

8111 GATEHOUSE ROAD, FALLS CHURCH, VIRGINIA 22047 ● 703 AAA-6000 ● CABLE AMERAUTO ● TELEX 89-9485

June 8, 1982

The Honorable Steven D. Symms
452 Russell Senate Office Building
Washington, D. C. 20510

Dear Senator Symms:

Knowing of your great concern over the possible imposition of an import fee, the American Automobile Association with 22½ million members, wishes to state our support for your position and to express our reasons for our strong opposition to the fee.

Just when conservation efforts are being rewarded by lower prices because of excess supply, an import fee would increase prices and penalize the public for conservation. Petroleum fuel users would be singled out for special tax burdens--not for the purpose of reducing reliance on a scarce commodity but simply to raise revenues. Reducing budget deficits is important to our economic welfare but any such efforts should be directed at a broader based tax.

The imposition of an oil import fee obviously will increase the direct operating costs of motor vehicles; less obvious is the fact that it also will increase the cost of highway construction and maintenance. So, the motorist is confronted with a double burden. Not only does he pay more to operate his vehicle but the increased cost of highway construction inevitably will lead to higher state and federal taxes to pay the increased costs of these services.

Higher taxes on petroleum to support general funds of government will jeopardize the potential of raising user taxes on those petroleum products to support needed capital investment to preserving our highways--at both federal and state levels. Such preemption of this potential revenue source could not occur at a worse time. The country is faced with a significant need to rehabilitate hundreds of thousands of miles of roads.

For the most part such rehabilitation efforts will be financed with taxes levied on petroleum products at the federal and state level. To preempt this revenue source with an excise tax on domestic or foreign petroleum will jeopardize the potential for raising additional revenue needed for this rehabilitation effort and endanger the capital investment already made in our highways.

Excise taxes placed upon imported petroleum most assuredly will result in the consumer being charged more for domestically produced petroleum, as domestic refiners raise prices to match import price levels. Such widespread escalation in prices can result in significant increased costs to the consumer.

Estimates by the Library of Congress, the Department of Energy, and the Congressional Budget Office all indicate that a $5 per barrel import fee would cost the average family over $400 per year--$100 in added gasoline costs alone. Added costs of such magnitude will further delay economic recovery.

The middle of a deep recession is not the time to impose a regressive tax on the American people. It will not substantially affect the deficit, but it may significantly retard economic recovery. If that happens the long-term impact on the deficit may be negative in light of the increased unemployment and welfare costs and decreased tax collections which result from increasing unemployment.

Low and fixed income motorists will be hit hardest by such increases, this at a time when there is little flexibility left even in middle-income budgets. Rapidly escalating interest costs already have multiplied the cost of all major consumer items to an unprecedented degree.

Of course, the negative impacts of the import fee will fall with particular gravity on the nation's tourism industry. That industry employs over 6.5 million U.S. workers, many of whom are low income people. Those people certainly don't need an additional burden imposed by the government at a time of national economic difficulty.

In short, an import fee would be one of the worst of all possible taxes imposed at the worst possible time. For these and other reasons listed in the attached fact sheet we urge your subcommittee to reject proposals to levy import taxes on petroleum products.

Sincerely,

Jerry C. Connors
Managing Director
Government Affairs

JCC/bkp
Attachment
xc: Malcolm Wallop
Chairman, Subcommittee on Energy and Agriculture Taxation

STATEMENT OF KATHERINE HALL, STAFF ATTORNEY, CENTER FOR AUTO SAFETY, WASHINGTON, D.C.

Senator WALLOP. Ms. Hall.

Ms. HALL. Thank you, Mr. Chairman. My name is Katherine Hall. I'm an attorney at the Center for Auto Safety. I'm accompanied today by Gerald Donaldson, my colleague at the center, who is a specialist in highway safety issues.

I'd like to thank you for the opportunity to testify today. We will be submitting a written statement for the record in a couple of days.

The Center for Auto Safety is a nonprofit public interest group dedicated to working to reduce the number of deaths and injuries on our Nation's highways. Today, we would like to confine our remarks to addressing the options of an increase in the Federal excise tax on gasoline and other motor fuels.

The Center for Auto Safety is very interested in this particular energy tax option because of the implications the Federal fuel excise tax has for highway safety. As the committee knows, the Federal fuel excise tax currently goes to the highway trust fund. The concept behind the highway trust fund is that users of our Nation's highways should pay for those highways on which they travel, and that trust fund moneys, in return, should be reserved for financing the needs of the highways.

This Federal fuel excise tax has not been raised for 23 years now. It's now $0.04 a gallon as it was in 1959. In the meantime, however, construction costs have increased by approximately 300 percent. The result of this disparity is that highway revenues have not been sufficient to finance the needs of our Nation's highways. In fact, it is now widely acknowledged that our national highway plant is in a state of crisis.

Moreover, highway conditions are continuing to deteriorate more every single year. Many national organizations concerned with highway issues contend that highway revenues must be doubled immediately in order to avoid falling further behind in providing for the needs of our highways. The Center for Auto Safety would be happy to see a doubling in the increase of revenues available for highways We think, however, that even more is needed in order to adequately provide for them.

Senator WALLOP. Could I just interrupt you? And I won't count it against your time. I assume that you are asking for that as a dedicated——

Ms. HALL. As a what?

Senator WALLOP. As a dedicated revenue. It would be dedicated to the highways.

Ms. HALL. Oh, absolutely. That's crucial we think.

The crisis condition of our highways falls into two major categories. The first is that highways have been allowed to deteriorate to the point that more expensive restoration efforts are now required than would have been required if highways had been financed properly all along.

The second category of crisis, and the one that particularly concerns the Center for Auto Safety, is that many of the Nation's highways have serious design deficiencies. There are many thou-

sands of miles of highways that were originally built decades ago. The design standards to which these highways were built are antiquated and they do not adequately provide for motorist safety. These highways are littered with unnecessary death traps. These death traps come in the form of narrow lanes, dangerous curves, no shoulders or very narrow shoulders, roadside obstacles, highways with low-skid resistance, and the list goes on and on. The inevitable result of these safety design deficiencies is that tens of thousands of Americans are killed and hundreds of thousands of Americans are severely injured every year on the country's highways.

However, to improve the deteriorating condition of our Nation's highways and to improve the dangerous design deficiencies of our highways, it takes money. And in recent years there has not been nearly enough money to adequately provide for highway needs. As has been mentioned in these hearings, a proposal has been recently made to increase the Federal fuel tax for the purpose of financing our highway needs. The Center for Auto Safety was very pleased to learn of this proposal. We have supported it, and we think that it was long overdue.

Thus, in conclusion, the Center for Auto Safety wholeheartedly supports an increase in the Federal excise tax on gasoline. But we believe that the crisis situation of our Nation's highways necessitates that any such increase be devoted to preserving our highways and to performing desperately needed highway safety upgrading.

Thank you again.

[The prepared statement of Katherine Hall follows:]

CENTER FOR AUTO SAFETY

1223 DUPONT CIRCLE BUILDING WASHINGTON, D.C. 20036 (202) 659-1128

Statement of Katherine Hall
Before the Senate Finance
Subcommittee on Energy and
Agricultural Taxation

June 9, 1982

Mr. Chairman, I am Katherine Hall, an attorney at the Center for Auto Safety. I am accompanied by my colleague, Dr. Gerald Donaldson, who, like me, specializes in highway safety issues. We are grateful for the opportunity to testify at these hearings concerning energy tax revenue raising options.

The Center for Auto Safety is a non-profit public interest organization working to reduce the number of deaths and injuries on our Nation's highways. My testimony will address only one energy tax option -- increasing the Federal excise tax on gasoline and other motor fuels. The Center is very interested in this option because of the implications it has for highway safety. We support an increase in the Federal fuel excise tax, but only if the revenues thus raised are dedicated to solving the critical problems of our highways.

At present, revenues raised by the excise tax are allocated entirely to the Highway Trust Fund. The concept underlying the Trust Fund is that highway users defray the cost of the roads on which they travel by paying user fees, which, in turn, are reserved exclusively for financing highway construction and rehabilitation. The Federal fuel excise tax, however, has not been raised for 23

years. It is now four cents a gallon as it was in 1959. In the meantime, the costs of highway construction and rehabilitation have increased about 300%.

The predictable consequence of this disparity is that Trust Fund revenues in recent years have been insufficient to finance urgently needed highway work. In fact, it is now widely acknowledged that our Nation's highways are in a state of crisis, and that the crisis is getting worse each year. Many national organizations involved with highway issues believe that Trust Fund revenues must be doubled immediately merely to prevent further deterioration of our highways, to say nothing about improving them. The Center for Auto Safety would be delighted to see highway revenues increased by doubling the present user fee, but we would support an even greater increase.

Increased Trust Fund revenues are needed to deal with two major problems. First, essential maintenance and rehabilitation work has been deferred for many years. The result of this failure to finance highways adequately in the short run is that much more expensive restoration work is now required than would have been necessary had highways been adequately maintained over the years. Second, most of our highways have serious safety design deficiencies. Thousands of miles of highways were built decades ago according to antiquated design standards that do not adequately provide for motorist safety. These highways are littered with deathtraps like dangerous curves, narrow lanes, blind crests, roadside obstacles, and pavements with low skid resistance. Because of these hazards, tens of thousands of Americans are killed, and millions are severely injured, in highway

accidents each year. Although economic costs pale beside this needless loss of life, motor vehicle accidents also cost the American economy billions of dollars annually because of losses in productivity and increased medical expenses.

Notwithstanding these widespread safety design defects, the Federal-aid highway program in recent years has been moving toward a short-term preservational program that does little to improve the long-term condition of our highways. Confronted with a highway funding crisis, Federal and State officials argue that available funds must be used mainly for repairing, that is, restoring a smooth pavement surface that will last only a few years. This kind of highway restoration is a shortsighted and inefficient approach that squanders money and wastes lives. Money is wasted because new asphalt placed over a deteriorated roadbed wears out much faster than if the roadbed had been properly rehabilitated first. Highways must then be repaved much more often than if they had been restored properly from the start. More importantly, human life is wasted because merely repaving the highways does nothing to eliminate their safety design defects. In the long run, it is much more sensible for our society to restore and upgrade highways properly the first time the job is done.

The work needed to improve the condition of our highways requires money, but Highway Trust funds have woefully failed to keep pace with the inflation of the past two decades. In the past few months, however, a proposal has been made to increase the Federal fuel excise tax for the purpose of financing highway construction and rehabilitation. We strongly support this proposal. An increase in highway user fees to finance the increased costs of highway use is long overdue.

In conclusion, the Center for Auto Safety wholeheartedly supports an increase in the Federal excise tax on motor fuels, but only if the increased revenues are devoted to preserving and upgrading our highways. Thank you again for the opportunity to present our views at these hearings.

Senator WALLOP. Thank you, Ms. Hall. Mr. Donaldson, did you have a statement to add?

Mr. DONALDSON. No, I did not.

STATEMENT OF DR. MARK N. COOPER, DIRECTOR OF RESEARCH, CONSUMER ENERGY COUNCIL OF AMERICA, WASHINGTON, D.C.

Senator WALLOP. Dr. Cooper.

Dr. COOPER. Thank you, Mr. Chairman.

My name is Dr. Mark Cooper and I am director of research of the Consumer Energy Council of America. CECA is a broad-based coalition of major national consumer, labor, farm, public power, rural electric cooperative, senior citizen, urban, and low-income organizations. In some sense at the end of a long day, we are the ultimate consumers, as the chairman mentioned earlier.

I appreciate the opportunity to testify before the subcommittee today. The basic analysis upon which my remarks rest is contained in our report entitled, "A Comprehensive Analysis of the Impact of a Crude Oil Import Fee," which I respectively submit for inclusion in the record.

I will briefly summarize several key points in that report, and offer some observations on the impact of other energy taxes.

We believe that if the committee thinks it can find the best solution to the budget deficit problem in an energy tax, it will be a futile effort. These alternative energy tax options present us with a series of worse cases, some of which are slightly worse than others, all of which are bad energy policies, bad economic policies, bad national security policies, and terrible social equity policies.

We estimate that a $5 per barrel import fee would cause a serious dose of stagflation, increasing inflation by at least half a percentage point and perhaps more than 1 percentage point, reducing GNP by about 1 percent and increasing unemployment by between two-tenths and fourth-tenths of a percent, or about 200,000 to 400,000 jobs. In fact, if I were to use the multipliers used in earlier statements, the job loss would be well over a million.

This analysis applies fairly close to any tax on oil products because when we conducted our analysis, we assumed a high rate of taxation on oil products and, therefore, few aftertax products. The dynamics of the impact of an across-the-board energy tax would be somewhat different, although we do not believe they would be much better. There has been some testimony today about spreading the tax base to reduce the economic impact. My testimony explains why we believe that an across-the-board tax would have negative economic impacts, perhaps 80 to 90 percent as bad as those for the import fee.

Because of these negative economic impacts, energy taxes are not the revenue raisers that they appear to be. We estimate that roughly 55 percent of the revenues that they raise directly are lost due to the decline in tax receipts in nonenergy sectors, additional Federal outlays resulting from increased enrollment, in unemployment and other social assistance programs, increases in Federal outlays in inflation index entitlements, programs for individuals, and increases in cost due to inflation in general government operations.

If you accept our arguments on the economic effects of across-the-board taxes, you will recognize that the revenue losses are similar for this.

Worst of all, at the very same time that energy taxes are economically unsound and fiscally inefficient, they are grossly inequitable, viewed either on their own or in relation to the recent tax cuts, which in part they are intended to offset.

We calculate that an import fee would wipe out two-thirds of last year's tax income for the lowest income group, one-quarter of the population which earns less than $10,000 per year. The middle class, 60 percent of the population with incomes between $10,000 and $40,000 a year, would lose one-third of its tax cut. The wealthiest one-fifth of the population would lose less than one-sixth of the tax cut. In essence, energy taxes repeal the third year for the poor but not the rich.

We have other ways of expressing this burden, but let us use this approach to compare energy taxes: By our estimates those families with incomes below $20,000 per year, the bottom half of the income distribution, received less than 15 percent of last year's tax cut. Yet, they would be forced to pay between 30 and 35 percent of every one of the options we are considering. Given that, it is impossible to argue that one tax is much more equitable than another.

The same could be said of geographic equity. Oil taxes are seaboard taxes, natural gas taxes are heartland taxes. It is ludicrous to say that taxing people in the interior or on the coast is more equitable than vice versa.

Finally, let me say that there should be no mistake that these are the economic and equity costs we should pay to enhance our national energy security. Although we recognize that there are legitimate national energy security concerns, we seriously doubt whether simply raising prices further is the solution. Since decontrol has driven the domestic price of energy up several hundred percent, additional price increases would produce miniscule savings. And there are dozens of much more cost effective ways to enhance national energy security, many of which were unfortunately repealed in the last session of Congress.

I thank you and I would be happy to answer any questions.

Senator WALLOP. Thank you, Dr. Cooper.

[The prepared statement of Dr. Mark Cooper and report follow:]

Testimony of

Dr. Mark Cooper
Director of Research
Consumer Energy Council of America

Before the
Subcommittee on Energy and Agricultural
Taxation
of the
Committee on Finance

United States Senate

on
Various Energy Tax Options

June 9, 1982

Mr. Chairman and Members of the Subcommittee:

My name is Dr. Mark Cooper and I am Director of Research of the Consumer Energy Council of America (CECA). CECA is a broad-based coalition of major national consumer, labor, farm, public power, rural electric cooperative, senior citizen, urban, and low income organizations (see attached list).

I appreciate the opportunity to testify before the Subcommittee today to present the results of CECA's comprehensive analysis of the implications of the proposed oil import fee and other forms of energy tax increases currently under discussion as budget-balancing measures. The basic analysis upon which we rest our conclusions is contained in a report entitled "A Comprehensive Analysis of the Impact of a Crude Oil Import Fee: Dismantling a Trojan Horse," which we submit, with your permission, for inclusion in the record. I will briefly summarize several key points in the report. I will also offer observations on what the impact of other energy taxes would be.

Let me say at the outset that I commend the Committee's efforts to study these issues carefully before moving ahead. It is critical to examine all of the impacts of all taxes before any such legislation is enacted.

Having done so, we believe that if the Committee thinks it can find the best solution to the budget deficit problem in an energy tax, it will be a futile effort. Our

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analysis shows that these alternative energy tax options present us with a series of worst cases, some of which are slightly worse than others, all of which are bad energy policy, bad economic policy, bad national security policy and bad social equity policy. I begin with an analysis of an oil import fee.

I. OIL IMPORT FEE

A. Economics Impacts

CECA's analysis estimates the economic impacts of the fee, both on the basis of the historical record of the economy's response to rising energy prices in the 1970s and recent simulations of the effects of the fee. We find that the oil import fee would create a significant shock to the economy resulting in a strong dose of stagflation.

For the purposes of analysis, we have made the following assumptions:

- The fee would be $5 per barrel. However, due to the supply and demand conditions in the market, we assumed that only three-quarters of the fee would be passed through to consumers.
- Domestic oil prices would rise to the effective price of imports.
- With a modest economic recovery, imports would rise to 5.5 million barrels per day.
- Domestic crude supply would be 8.6 million barrels per day and an additional 1 million barrels per day of natural gas liquids would exhibit the same price increases as crude oil.

Under these assumptions, the import fee and the associated increases in domestic energy prices would provide a serious energy price shock to the economy:

- The oil import fee would increase the nation's oil bill by about $21 billion -- a figure equal to roughly seven-tenths of a percent of Gross National Product (GNP).

- This oil price shock is between one-third and one-quarter of the magnitude of the oil price shocks of 1973-75 and 1979-81.

The price shock resulting from the import fee would cause the following major economic losses:

- an increase in inflation of at least half a percentage point and perhaps more than one percentage point,

- a reduction in GNP of between .65 and 1.25 percent, and

- an increase in unemployment of between two-tenths and four-tenths of a percentage point, a loss of approximately 200,000 to 400,000 jobs.

B. Energy Markets

Reviewing the recent history of energy price policy in the United States, we find that an import fee cannot be justified on economic efficiency grounds. This is true from the point of view of both those who have supported deregulation in the name of market pricing and those who have opposed deregulation.

- From either point of view, there is one resounding conclusion: overpricing of energy leads to serious inefficiencies and misallocation of resources.

- We estimate that the pure economic efficiency costs of the fee -- simple economic waste -- would certainly be on the order of $1 billion per year and could be much more.

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C. Revenue Raising Potential

Although the fee appears to be a major revenue raising measure, producing direct revenue gains of up to $17.2 billion, careful analysis shows that the stagflationary impact of the fee dramatically undermines its effectiveness as a revenue raiser.

We estimate that the fee's revenue-raising potential would be reduced by:

- o $4.5 billion (28 percent of the gross revenues), due to the decline of tax receipts in non-energy sectors of the economy;
- o $1.8 billion (11 percent of the gross revenues), due to additional federal outlays resulting from increased enrollments in unemployment and other social assistance programs;
- o $1.8 billion (11 percent of the gross revenues), due to increases in federal outlays from inflation-indexed entitlements for individuals;
- o $1.0 billion (6 percent of the gross revenues), due to other inflation-related increases in federal outlays.

Consequently, more than half of the gross revenues would be lost or offset. Thus, from a $21 billion dollar increase in the national oil bill, the net revenue gains of the fee would be less than $8 billion.

D. Social Equity

CECA's analysis finds the fee to be extremely inequitable in the burden it places on households, whether viewed on its own, or in relation to the recent tax cuts, which, in part, it is intended to offset.

Individual households will incur increased costs of:

- o approximately $70 per year for gasoline;
- o about $170 per year for indirect energy expenditures for goods and services produced with petroleum product inputs; and
- o about $70 per year in heating bills for those who heat with oil.

Since these increased costs are a direct result of a measure -- the oil import fee -- which increases federal tax revenues, the fee can be viewed as simply offsetting some of last year's tax cuts. From one point of view, i.e., when the burden of the fee is compared to the total of the personal tax cuts legislated last year, we find that:

- o The lowest income group (the 22.5 percent of the population earning less than $10,000 per year) will have almost two-thirds of its tax cuts erased by the fee and its associated price increases.
- o The lower middle income group (24.8 percent of the population earning between $10,000 and $20,000 per year) and the middle income group (35.2 percent of the population earning between $20,000 and $40,000 per year) will lose one-third of their tax cuts.
- o The upper middle class (16.3 percent of the population earning between $40,000 and $80,000 per year) will lose less than one-sixth of their tax cuts.
- o The wealthy (1.2 percent of the population which earns more than $80,000) will lose none of their tax cuts at all, because they benefit from increased oil company profits.

From another point of view, i.e., when the burden of the fee is compared to an equal amount of last year's tax cuts, we find that:

- o The richest 1.2 percent of the population will be big winners in the tax shell game, ending up

about $4 billion better off, and the next richest 16.3 percent of the population will end up $1 billion better off.

- o The low income and lower middle income groups each will be about $1 billion worse off.
- o The middle income group will be the big losers, ending up $3 billion worse off.

With respect to general equity, we conclude the following:

- o The low income and lower middle income groups will pay a disproportionately larger share of the price increases that will result from the oil import fee than higher income groups.
- o The middle income group will pay roughly in proportion to its share of income.
- o The upper middle income group and the wealthy will pay much less than their share of income.

Regardless of how the burden of the fee and its associated price increases is viewed, it is grossly inequitable to everyone but the richest 20 percent of the population.

E. National Energy Security

Although CECA recognizes the legitimate concerns of those who believe we still have a major national energy problem, we seriously doubt that the problem is simply an import problem and we doubt that an import fee is the simple solution. Above all, we are convinced that the fee is among the least effective responses we have available to the national security problem caused by imports.

Since decontrol has driven up the domestic price of oil by over 300 percent, additional price increases

associated with the import fee would produce miniscule savings -- perhaps 300,000 barrels per day.

- o This represents less than 2 percent of the non-OPEC free world production and an even smaller portion of non-OPEC productive capacity.
- o This represents less than 3 percent of OPEC's currently underutilized capacity.
- o This represents less than 15 percent of the current world excess of supply.

Moreover, with the recent rapid expansion of non-OPEC production capacity and the declining energy intensity of output in the industrialized nations of the West, even these small percentages may overstate the importance of a mere 300,000 barrels per day.

While the potential national security benefits of the fee are small and the price is high -- $21 billion in direct cost increases, plus a serious inflationary/recessionary shock -- there are alternative strategic measures available which are far more effective and far less costly.

- o The energy savings potential of federal energy conservation programs recently dismantled by the Reagan Administration almost certainly equals the potential of the fee, at a fraction of the cost.
- o As the instantaneous response to a crisis, the Strategic Petroleum Reserve already contains about 2.5 times more oil than the import fee will save next year. For the same price we would pay for the oil import fee, we could add six times as much oil per year to the strategic reserve.
- o The National Petroleum Council, the American Petroleum Institute and the Department of the Treasury have identified short term measures that would produce ten times as much energy savings on a short term strategic response

basis, the total cost of which would probably be smaller.

- o The Solar Energy Research Institute, the National Academy of Sciences and Resources for the Future have identified mid and long term strategies that would yield savings at least ten times as large.

II. OTHER ENERGY TAXES

Because we used moderate assumptions about the effective tax rate on oil company profits in the analysis of the import fee, the above conclusions will apply fairly closely to any tax on petroleum products. That is, the essential difference between an import fee and a tax on all petroleum is the after tax profits that the import fee creates when domestic prices rise to match the increase in import prices. Since we assumed that these would be relatively small, there would be little difference between the impact of an import fee and an excise tax on all petroleum products.

The dynamics of the impact of across-the-board energy taxes would be somewhat different, although we do not believe they would be much better. We will briefly analyze across-the-board energy taxes in each of the five areas discussed above, with the emphasis placed on economics and equity.

A. Economics

With an across-the-board tax, the increase in the national fuel bill for every dollar increase in the national

tax revenue (the revenue bang for the price increase buck) would be smaller because there are no after tax profits with an across-the-board energy tax. This is the point made by those who talk about having a broader base for the tax.

The assumption that immediately follows in their thinking is that because you have a smaller price increase you will suffer less of a negative economic loss for every revenue buck. We would caution the Committee against jumping to such a conclusion and urge you to examine this issue in careful detail.

When you are dealing with vital inputs for economic activity, you must look at the ability to substitute other inputs (or switch fuel) in order to judge the economic impact of raising its price (i.e., price elasticities). Certainly in the industrial sector, the evidence suggests that natural gas has a lower price elasticity than oil.

In an earlier study CECA conducted, entitled The Past as Prologue II: The Economic Impact of Rising Energy Prices, A Comparison of the Oil Price Shock and Natural Gas Decontrol, which we submit, with your permission, for inclusion in the record, we compared econometric analyses of oil price shocks and natural gas price shocks. Those anlayses clearly suggest that there is more negative economic bang for the natural gas price increase buck. This would suggest that spreading the revenue base does not reduce the economic impact as must as simple arithmetic suggests. We believe that

the negative impact of an across-the-board tax would be 80 to 90 percent as bad as the oil import fee.

B. Equity

From the point of view of equity, there is not much difference between any of the various taxes proposed. Let me make the point as follows. According to a Congressional Budget Office study, those families with incomes below $20,000 per year (the bottom half of the income distribution) received less than 15% of last year's tax cuts. We estimate that they would be forced to pay between 30 and 35 percent of any energy tax increase. Given that, it is ludicrous to argue that one tax is much more equitable than the other, especially compared to last year.

The same can be said for geographic equity. Oil taxes are seaboard taxes, natural gas taxes are heartland taxes. It is ludicrous to say that taxing people on the coasts is more equitable than taxing people in the interior of the country.

C. The Other Issues

With respect to revenue raising, it is clear that if you accept our arguments on economic impacts, the erosion of revenues from across-the-board energy taxes is similar. With respect to national security, I think that what we have said of the oil import fee stands.

With respect to efficiency in the energy markets, one would want to ask some fairly esoteric theoretical questions about the determinants of the shape of the demand curve for energy in order to estimate the allocative inefficiencies introduced by a tax on energy but not on any other inputs (factors of production). That is, insofar as artificially raising energy prices will induce the substitution of other inputs for energy in the production process and insofar as that substitution will entail inefficiencies, there will be efficiency losses in the overall economy. The two reports that I have submitted to the Committee contain a theoretical and analytic framework for conducting such an analysis.

III. CONCLUSION

CECA's analysis concludes that the oil import fee as well as the other energy taxes are a bad policy choice from all five points of view -- energy, economic, budget, social equity and national security policy. But even as we observe that each and every specific impact of an energy tax leads to the conclusion that it is bad policy, we should not lose sight of a larger, more important issue.

The new budget proposes to reduce deficits by imposing new taxes on commodities and cutting federal pay, retirement and other benefits, while it keeps intact last year's personal income tax cuts and most of the original military spending increases. Since the budget proposal actually combines one of the largest peacetime increases in

military spending with an energy tax that would constitute a 20 percent increase in commodity and excise taxes, the issue is certainly not simply whether to tax and spend, but how.

The reality of the last two years of fiscal proposals is to effect a fundamental shift in the mechanism for raising government revenues -- a shift away from progressive taxes on personal and corporate income to regressive taxes on consumer goods, such as fuel, and to effect a radical redistribution of wealth in this country -- a shift away from lower and middle income Americans to upper income groups and the military.

This redistribution is typically defended as necessary to provide incentives to stimulate economic recovery. However, there are a number of reasons to believe that a second dose of regressive fiscal policy will simply prolong the economic malaise caused by last year's first budget and tax program.

First, as shown above, energy price increases have a uniquely depressing effect on the economy because energy is a vital necessity for household activities and industrial processes.

Second, because the initial fiscal policy thrust failed utterly to stimulate the economy, tax and spending decisions are now being treated as a zero sum game. A dollar more for defense and a dollar more in tax cuts for upper income households are turning out to mean a dollar less of civilian spending for low and middle income groups. In the

aggregate, the economic multiplier effects of upper income and military spending are smaller and this will certainly slow the economy down.

Third, although one of the primary benefits being projected from Congressional deficit-reducing efforts is to cut the demand for money and thereby lower interest rates, the actual results will be continually disappointing as long as the President and the Federal Reserve Board champion an extraordinarily tight supply of money.

Given these three factors, those who would balance the budget through regressive fiscal (and monetary) policies quickly end up chasing their own tails. As the economy remains more sluggish than expected, revenues fall short, outlays overshoot and deficits are higher than predicted. Commodity tax increases directly raise the inflation rate. Interest rates stay up, especially when the money supply remains tight. Failing to understand the nature of the problem, the wealth redistributors call for another round of regressive tax increases and spending cuts.

We face the very real prospect of a long, intensifying, regressive, recessionary spiral which will erode the social equity and the economic structure on which half a century of economic progress was built. In order to break that spiral, Congress must recognize that equity and economic recovery go hand in hand. It must reject the shift to commodity taxes as the basis for financing government; it must repair the damage to the moderately progressive nature of our tax and spending structure; and it must restore a balance between the military and civilian sectors of our economy. I would be glad to answer any questions that you have and assist the Committee in its examination of the critical economic matters.

STATEMENT OF WILLIAM TOOHEY, VICE CHAIRMAN, TRAVEL AND TOURISM, GOVERNMENT AFFAIRS POLICY COUNCIL, PRESIDENT, TRAVEL INDUSTRY ASSOCIATION, WASHINGTON, D.C.

Senator WALLOP. Mr. Toohey.

Mr. TOOHEY. Thank you, Mr. Chairman.

My name is William Toohey and I am president of the Travel Industry Association of America and appear before you today in my capacity as vice chairman of the newly formed Travel and Tourism, Government Affairs Policy Council.

Mr. Chairman, in the interest of conserving your time and with your permission, I would like to extract from my statement, and then insert the full statement into the record.

Senator WALLOP. By all means. The full statement will go in.

Mr. TOOHEY. The policy council to which I referred was formed in March of this year. The official organization representing the common concerns of the travel and tourism on Government issues. The council includes every major segment of the travel industry, including airlines, hotels, restaurants, buses, and attractions. It comprises 28 of the largest national travel and tourism trade organizations in the United States.

On behalf of the council, I express our gratefulness for the opportunity to discuss with you our opposition as an industry to the imposition of oil import fees and other concepts of broad-based energy taxation being considered by the administration and by some Members of the Congress.

Proposals such as these cannot be viewed by the travel and tourism industry in isolation. Already States have been increasing State and motor fuel taxes. And others have been discussing additional fuel taxes, none of which would be marked to earmark the transportation sectors.

Our industry is especially dependent upon fuel; particularly, for broad transportation purposes, such as aircraft, buses, automobiles, recreational vehicles, and so forth. Its availability at affordable prices is of the utmost importance to the economic health of the travel industry. While the industry supports congressional efforts to reduce Federal deficits, we question the use of energy taxes as a means to achieve a balanced budget. For an energy-dependent industry such as ours, energy usage taxes, which ultimately raise motor and jet fuel prices, are a deterrent to economic viability within the travel industry. Such taxes, we believe, are inflationary and represent significant and direct intervention in the marketplace to the detriment of consumers, small businesses, and transportation companies.

Perhaps the travel industry within government is not as well understood as it should be in terms of the broad economic impact it has on the United States. It's a $190 billion industry, comprised 99 percent by small business, all of whom are dependent upon fuel for travel either directly or indirectly. Additional fuel taxation will have a profound effect on the 1 million small businesses that comprise the travel and tourism industry of the United States.

Gasoline is often a popular target for the imposition of taxes because it is thought to represent the most discretionary use of petro-

leum, and reducing its consumption is perceived to entail the least threat to industrial productivity.

While it may be true that gasoline represents the most discretionary use of petroleum, the consumption of fuel for transportation purposes supports travel and tourism which is the third largest retail activity in the United States. And one of the top three employers in 35 of our 50 States.

While it is not industrial in character, it employs nearly 7 million American men and women, none of whom perceive themselves to be holding discretionary jobs.

Of additional concern is the effect of an import fee on international trade. Major U.S. export markets are not likely to raise their fuel costs above world levels. The United States will, thus, suffer a competitive disadvantage internationally as imported petroleum is a factor in the cost structure of most goods in some important services such as transportation.

The U.S. share of the world tourism market is a meager 10 percent, though travel is the fourth largest source of U.S. export revenue.

Mr. Chairman, we urge you to seriously consider the negative implications of additional energy taxation on the travel and tourism industry, on the consumer, and on the economic recovery of the Nation.

I thank you again for the opportunity to present these views to you.

Senator WALLOP. Thank you very much, Mr. Toohey.

[The prepared statement of William D. Toohey follows:]

TRAVEL AND TOURISM GOVERNMENT AFFAIRS POLICY COUNCIL

Statement Opposing Various Energy Tax Revenue Options

BEFORE THE

COMMITTEE ON FINANCE

SUBCOMMITTEE ON ENERGY AND AGRICULTURAL TAXATION

UNITED STATES SENATE

June 9, 1982

Presented By:

William D. Toohey, Vice Chairman

SUMMARY STATEMENT

* The Travel and Tourism Government Affairs Policy Council includes 28 of the largest national travel and tourism trade organizations and is the official organization representing the industry on government issues.

* While the industry supports Congressional efforts to reduce federal deficits, we oppose the use of energy taxes as a means to achieve a balanced budget.

* Energy usage taxes ultimately raise motor and jet fuel prices, placing a disproportionate share of the economic burden on industries, such as travel, which are highly dependent on fuel.

* Airlines, for example, must devote 30% of their operating expenditures to the purchase of fuel, and have lost $1 billion in the last year alone. A $5/barrel oil import fee alone would cost the airlines in excess of $1 billion per year.

* The $190 billion travel industry is comprised 99% by small business; a critical segment of our economy which is now suffering a record rate of bankruptcy.

* Inasmuch as travel is one of the top 3 employers in 35 states, providing nearly 7 million jobs, an additional tax or fee fuel, direct or indirect, will adversely impact many important service industry sectors including travel and tourism.

* Since most U.S. export markets will not raise their fuel prices above world levels, and imported petroleum is a factor in the cost structure of most goods and services, the U.S. will suffer a competitive disadvantage internationally. The travel industry is the fourth largest source of U.S. export revenue with a 10% world tourism market share. With the imposition of an energy fee or tax, we can expect our share and export earnings to decrease.

* The import fee is inflationary. In addition, an increase in the expenditures of government entitlement programs, pegged to inflation, will offset much of the revenue raising capability of the fee.

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Mr. Chairman and members of the Subcommittee, my name is William D. Toohey and I am President of the Travel Industry Association of America (TIA). Today I am appearing in my capacity as Vice Chairman of the Travel and Tourism Government Affairs Policy Council.

The Policy Council was formed on March 17 of this year and is the official organization representing the travel and tourism industry on government issues. The Council represents every major segment of the industry, including airlines, hotels, restaurants, buses and attractions. It includes 28 of the largest national travel and tourism trade organizations in the United States.

Air Transport Association
American Automobile Association
American Bus Association
American Car Rental Association
American Hotel and Motel Association
American Recreation Coalition
American Sightseeing International
American Ski Federation
Association of Retail Travel Agents
Conference of National Park Concessionaires
Gray Line Sight-Seeing Association
Highway Users Federation
Hotel Sales Management Association International
International Association of Amusement Parks & Attractions
International Association of Convention & Visitors Bureaus
National Air Carrier Association
National Campground Owners Association
National Caves Association
National Council of Area and Regional Travel Organizations
National Council of State Travel Directors
National Council of Travel Attractions
National Restaurant Association
National Ski Areas Association
National Tour Broker Association
Recreation Vehicle Industry Association
Travel Industry Association of America
United States Travel Data Center
United States Tour Operators Association

At large members:
Richard Ashman, V.P., Government Affairs, Holiday Inns, Inc.
Charles Gillett, President, New York Convention & Visitors Bureau
Robert Juliano. Legislative Consultant, Hotel Employees and Restaurant International Union

By presenting its views in one, unified voice, the tourism industry, through the Council, will be better able to facilitate a working relationship with the Congress and the Administration as issues affecting the industry are discussed.

On behalf of the Council, we are grateful for the opportunity to discuss with you our opposition to the imposition of oil import fees and other concepts of broad based energy taxation being considered by the Administration and some members of Congress. Proposals such as these cannot be viewed by the travel and tourism industry in isolation. Already states have been increasing state motor fuel taxes and the Administration and others have been discussing fuel taxes, none of which would be earmarked to assist the transportation sectors.

Our industry is especially dependent on fuel, particularly for broad transportation purposes, i.e. aircraft, buses, automobiles, recreational vehicles, etc. Its availability, at affordable prices, is of utmost importance to the economic health of the travel industry. While the industry supports Congressional efforts to reduce federal deficits, we question the use of energy taxes as a means to achieve a balanced budget. For an energy dependent industry such as ours, energy usage taxes which ultimately raise motor and jet fuel prices, are a deterrent to economic viability within our industry. Such taxes are inflationary and represent significant and direct intervention in the marketplace to the detriment of consumers, small business and transportation companies.

Airlines, for example, have been showing the worst losses in aviation history. For the 12 months ending in June, 1982, the airlines will have lost approximately $1 billion. It should be obvious, having observed the fate of Braniff, that an industry segment that devotes 30% of its operating expenditures to fuel cannot bear an additional economic burden without serious economic repercussions. Workers have granted cost reducing wage concessions to the ailing airline industry. These landmark labor and industry negotiated arrangements were designed to reduce costs. We do not feel that it is appropriate that the government should seek to dissipate these sacrificial cost savings by increasing energy costs.

These equity considerations are not limited to airlines. Small business is suffering a record rate of bankruptcies. As the $190 billion travel industry is comprised 99% by small business, all of whom are dependent on fuel for travel either directly or indirectly, additional fuel taxation will have a profound effect on the small businesses of the travel industry.

Gasoline is often a popular target for the imposition of taxes because it is thought to represent the most discretionary use of petroleum and reducing its consumption is perceived to entail the least threat to industrial productivity. While it may be true that gasoline represents the most discretionary use of petroleum, the consumption of fuel for transportation purposes supports travel and tourism which is the third largest retail industry in the United States and one of the top three employers in 35 states, while not industrial in character, employs nearly 7 million American workers who do not perceive themselves to be holding discretionary jobs.

While transportation fuel taxes for the direct support of transportation systems are likely to be more acceptable to users than any concept of focusing on fuel taxes for general revenue purposes, clearly, an additional tax or fee on fuel, direct or indirect, would soften industrial productivity as well as impact economically important service industry sectors.

Of additional concern is the effect of an import fee on international trade. Major U.S. export markets are not likely to raise their fuel costs above world levels. The U.S. will thus suffer a competitive disadvantage internationally as imported petroleum is a factor in the cost structure of most goods and some important services (such as transportation). The U.S. share of the world tourism market is a meager 10 percent though travel is the fourth largest source of U.S. export revenue. Twenty-three million foreign tourists visited the U.S. last year alone, spending $11.7 billion and creating over 300,000 new jobs. Additional energy taxation can be expected to further erode our world market share, while significantly decreasing our national export income. This seems to us at odds with Congressional mandated objectives to increase our exporting capability, particularly of small businesses, as a means to economic recovery.

The Congressional Budget Office estimates, for a petroleum import fee, an inflationary impact of 1.3 percent or an 8 to 12 cent increase in gasoline resulting from a $5 fee on imported oil. An increase in the expenditures of government entitlement programs pegged to inflation will inevitably offset much of the revenue raising capability of the fee. The cost of fuel, which a few years ago was a major factor in U.S. inflation, has recently moderated to the benefit of the U.S.

economy. These gains will obviously be mitigated by the imposition of a fee and will certainly contribute to a new increase in inflation and the rise of oil prices generally. It is, in our view, unlikely that OPEC will show restraint in oil pricing while the U.S. manipulates demand by market intervention and reaps billions in tax revenue from imported oil.

Finally, Mr. Chairman, we urge you to seriously consider the negative implications of additional energy taxation on the travel and tourism industry, the consumer, and the economic recovery of the nation.

STATEMENT OF MR. PAUL R. IGNATIUS, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AIR TRANSPORT ASSOCIATION, WASHINGTON, D.C.

Senator WALLOP. Mr. Ignatius.

Mr. IGNATIUS. I have a statement that I would like to file for the record and then I will highlight it for purposes of the hearing.

My statement attempts to respond to the call for the hearing in which you asked for information necessary to make an informed judgment as to the effect of possible energy tax alternatives on consumers and industry. And you list five options that you have under consideration.

In order to do that, I must first report briefly on the circumstances in the airline industry at the present time as a background to commenting on the several options. It's not, I regret, a good story to report at the moment. Our employment is down with some 35,000 jobs eliminated in the last 2 years. Our expenses are up $10 billion in 1981 over 1979. And our operating losses are worsening, with the loss of $633 million in the first quarter of 1982 alone, a $1 billion loss for the 12-month period ending this month.

Now under these circumstances, which constitute the worst financial crisis in the history of the airlines, we are trying as an industry to keep our heads above water until the recovery occurs. An energy tax that would add hundreds of millions of dollars, in some instances perhaps a billion dollars or more, would seriously jeopardize these recovery efforts.

Now let me address the five options that you have listed for comment.

First, an oil import fee would be a very costly option. We estimate that a $0.01 per gallon increase in the price of jet fuel costs the industry $100 million on an annual basis. An oil import fee of $5 a barrel is a commonly discussed level. We believe that a fee of that amount would result in an $0.08 to $0.12 per gallon cost increase for jet fuel or an additional annual cost of from $800 million to $1.2 billion.

A second of your alternatives is an excise tax on both domestic oil and imported crude. We believe the impact of that on our industry would be essentially the same as the cost impact from an oil import fee.

The next two of your options deal across the board on energy, and are not confined simply to petroleum. One of them is the tax on all forms of energy. The second is a variation of it, which addresses the Btu content of the several fuels. These taxes would have a lesser but nevertheless very significant impact on us because the burden is spread across the entire energy base rather than being confined just to petroleum, which is the fuel that the airlines use.

We have seen some figures developed by the Congressional Research Service in which a tax level of $0.17 per million Btus is described as essentially the equivalent of the $5 per barrel import fee in terms of revenue generation. And on that basis, we believe that a tax of this kind would result in additional cost to the industry of some $200 million a year.

Clearly, increases of $200 million or $800 million or, indeed, $1.2 billion would most seriously affect us at a time when the industry is having such difficulty.

One final point, if I may. There is a fifth option that you have. The fifth option is an increase in the Federal excise tax on gasoline and other motor fuels. This particular option would have little or no impact on our industry, except for the ground vehicles we operate. But it has inflationary implications for the economy as a whole. And as Mr. Toohey has demonstrated, it would have adverse effects on the travel and tourism industry.

That concludes my summary and thank you very much.

Senator WALLOP. Thank you very much, Mr. Ignatius.

[The prepared statement of Paul R. Ignatius follows:]

Statement of Paul R. Ignatius
President and Chief Executive Officer
Air Transport Association
before the Subcommittee on Energy
and Agricultural Taxation
U.S. Senate Committee on Finance
June 9, 1982

My name is Paul R. Ignatius. I am the President and Chief Executive Officer of the Air Transport Association. On behalf of our member airlines, I wish to provide you with information on the effect on the airlines of the energy tax options that you are considering.

The airlines currently are experiencing the most severe financial difficulties in their entire history. One large airline recently declared bankruptcy. For the twelve months ending in June of this year, the airlines will sustain operating losses of more than $1 billion.

There are several causes for our present difficulties.

First, the economy has been soft, and that has affected us as it has so many other industries. The high interest rates associated with our current economic situation have also been a serious problem for many of the airlines as it has been for business in general.

Our other problems are unique to the airlines.

First, the illegal PATCO strike of air traffic controllers has limited the availability of airport and airways capacity and prevented the airlines from operating in the most efficient manner. While the FAA and the dedicated air traffic controllers who continued working have done an outstanding job, there has been a serious economic impact on the airlines that will continue until the system is fully restored.

Secondly, the airlines are going through a most difficult period of adjustment from regulated, public-utility type businesses to a market-driven, intensely competitive industry.

These adjustments, together with the soft economy, have led to fare wars and price cutting on many routes that have seriously depressed airline earnings. Despite these efforts to stimulate traffic by fare cuts, passengers have declined from 317 million in 1979 to 286 million in 1981.

As you would expect in these circumstances, airline unemployment has increased significantly. In the last two years, the industry has lost more than 35,000 jobs.

The energy options being discussed would add significantly to airline costs. First, we are major consumers of jet fuel, with purchases of 10.5 billion gallons in 1981, at a cost of $11 billion. This amounted, incidentally, to about 30 percent of operating costs, second only to labor costs. In 1973, an equal amount of fuel was consumed at a cost of only $1.4 billion.

A one-cent per gallon increase in the cost of jet fuel adds $100 million to airline costs. We have made estimates of the impact on the airlines of the various options mentioned in your hearing notice. For example, our estimate of the cost of the oil import fee option is shown in the table below.

Import Fee	$1/Bbl	$3/Bbl	$5/Bbl Increase
Increase in Average Price/Gallon	2¢	7¢	8 - 12¢
Increase in industry costs	$200 million	$700 million	$800 - 1,200 million

The question one must ask is whether an industry that has lost $1 billion in the past 12 months can withstand an additional $1 billion in annual costs.

And in a recession, one must also ask whether the airlines could successfully pass through cost increases of this magnitude to consumers of air transportation.

On behalf of our airline members, I wish to state that we have serious doubts about our ability either to absorb these tremendous new costs or to pass them on to our consumers.

The Committee is also considering other energy tax options.

One of these other options — the excise tax on imported and domestic oil — would have about the same impact on the airlines as would the import fee — that is, about a $1 billion cost increase at an equivalent $5/Bbl level.

The ad valorem tax on all fuels, and the tax on all fuels based upon BTu content would have serious impact on the airlines, but not so drastic as fees or taxes confined to petroleum products since other energy sources would bear some of the burden. A tax level of 17¢ per million BTu — a figure suggested in a Congressional Research Service study as the equivalent of the $5 per barrel oil import fee from the standpoint of revenue generation — would cost the airlines approximately $200 million a year. The ad valorem tax would have about the same effect. Cost increases of this magnitude would seriously hinder airline recovery efforts.

Your fifth option — an increase in the Federal excise tax on gasoline and other motor fuels — would have only limited impact on the airlines, but it would add to inflationary pressures and adversely affect many elements of the travel and tourism industry.

Mr. Chairman, this completes my statement. We appreciate the opportunity you have given us to provide information on the tax options you are considering.

Senator WALLOP. May I say that these are not my options. They are not my personal options.

Mr. IGNATIUS. I see.

Senator WALLOP. They seemed a likely course if we were going to go one way or another. And I thought that it was important that we hear from you on these.

Senator Durenberger?

Senator DURENBERGER. Thank you, Mr. Chairman. I want to explore the last of the five options, all of which the chairman of the subcommittee has disowned so he can keep his independent judgment when he comes to making a decision on it.

As I indicated in my earlier questions, I've come to a point of interest, I guess, particularly in Senator Symms' proposals relative to Federal excise tax increases on gasoline for several reasons. One is, as I said earlier, just the condition of our transportation system and that includes the safety conditions which I neglected to speak to. But two-thirds of the bridges are about to collapse, to say nothing of the narrow roadways.

Second, watching energy policy, I was chuckling here as we talk about the inflationary aspects of a nickel increase or something in gasoline. If we had been sitting here 2 years ago when we were desperate and John Anderson was out talking about a $0.50 gas increase and Bill Bradley was sitting over there spending it—one person's inflation one year is somebody elses sense of concern in a different year. And I think those of us who are willing to look at this in terms of energy policy really care about how you keep the energy factor out of the inflation equation. A nickel may not do it. Twenty-five cents might. I am not suggesting $0.25.

And this gets me—maybe, Mr. Koltnow, I need to ask you and Mr. Toohey this question. I will make a presumption in my question. And that is that I would assume that one of the concerns of those who depend for their livelihood in some way on our highway system about any major Federal tax increase would be the John Anderson syndrome, if you will. In other words, if you can do a nickel today or a dime today or something like that, maybe you will do $0.50 and fund social security out of it or some other thing. And we will break with the notion in this country that the gasoline tax, whether it's in aviation or in surface transportation, is basically designed to be a user's fee.

Let me just ask you if that isn't one of the concerns that a lot of users have when we talk about increasing the Federal tax?

Mr. KOLTNOW. Well, it certainly is a concern when we see highway users treated as if they are engaging in some sort of a sin. Highway user taxes as sin taxes scare the dickens out of us and for all of the obvious reasons.

I am sorry that Senator Dole isn't here because I was going to mention in my remarks that this is one area of energy taxation where the people who have been taxed are just about unanimous in standing up and saying we like this tax; tax us more; we believe it is a sound tax when it is applied to highway improvement purposes. Highway user fees, taxes if you will, dedicated to highway purposes, have been a marvel of taxation. They swept the country in 10 years, from the first State in 1919 to all of the States in 1929, as a basic way of funding highways. They're fair. They're reason-

able. They make good sense. They have built the best highway system in the world. It's a tragedy that we haven't faced up to that in the last couple of years and made the kind of tax increases that are necessary to beef up the Federal-aid road program.

I will say, contrary to the situation 5 years ago, the States have moved ahead and taken the initiative. And the level of taxation in the States has gone up because, I think, of the plain fact that Governors and State legislatures are perhaps a little bit closer to the road system and the folks who use them on a day-to-day basis than the Congress may be.

I am hopeful that we can avoid the $0.50, $1 tax, as you name it, on motor fuel and that we can return to the notion of increasing highway user taxes for highway purposes. I think the country will be better off if we can.

Senator DURENBERGER. Mr. Toohey, any additional comments?

Mr. TOOHEY. Well, as far as the travel and tourism industry is concerned is at the moment faced with a number of so-called user fee tax propositions. And that entire question has been discussed by the policy council. And I think the feeling is unanimous that any user fee is only justifiable when the money collected benefit the user. And since travel and tourism depends for its very existence and continuance on a viable transportation system which includes the Nation's highways, if fuel taxes were imposed on motor gasoline and if they were dedicated to the maintenance and improvement of the Nation's highway system, I think that would benefit the travel and tourism industry, the American traveler and the economy generally.

Senator DURENBERGER. Yes, Dr. Cooper.

Dr. COOPER. I would like to add a point I didn't make in my verbal presentation. With respect to the question of commodity taxes, we view an energy tax as an opening round in a shift away from income taxes to commodity taxes. And we consider it a very important issue. We see this as a fundamental question and we worry that year-after-year we will be here debating new taxes on commodity-by-commodity-by-commodity. If we start now to try and raise these kind of revenues through energy taxes, which are big and vulnerable—the industry has a reputation of being wealthy—next year we can be back here putting taxes on plastics or some other sort of vital commodity that we think we can raise a lot of revenue from.

The user fee aspect of dedicated taxes is fine—but this is something more fundamental. It is a question of whether or not we are going to try and raise Federal revenues through commodity taxes.

Senator DURENBERGER. Do you think energy is a commodity that hasn't been taxed?

Dr. COOPER. No doubt it has, but the question is whether we are going to use these types of commodity taxes, which are significantly less progressive than even what is left of our progressive income tax, to continue to try and close the holes in our revenue base. As I said, we think that these are regressive solutions that will ultimately lead to economic disaster.

Senator WALLOP. Even as dedicated taxes? Even as taxes dedicated to the maintenance of the highway systems?

Dr. COOPER. We would have less concern about dedicated taxes. What we are very concerned about is a shift in the general revenue base away from progressive income tax.

Senator WALLOP. But that, by itself, is not a shift to expand Federal energy tax and maintain it in the highway users trust fund. That was the concept that was established in 1972 or something.

Dr. COOPER. That's right. My concerns about that are not what I am expressing.

Senator WALLOP. Dr. Cooper, is it your assumption or statement that any of the energy taxes that we are talking about ultimately are paid by the consumer and not the companies that are producers?

Dr. COOPER. In our analysis we assumed that the passthrough from the point of import was not perfect. But it was a fairly large—when you are done calculating what could and couldn't be passed through, the consumer ultimately bore a very, very large part of the tax. And, therefore, the price increase.

Senator WALLOP. He ultimately bore a very, very large percentage of the windfall profits tax, did he not?

Dr. COOPER. I would suspect that that is the case.

Senator WALLOP. I think, indeed, probably most of it. I assume your statements go into more detail. I am concerned about your transport association and the industry which you represent. What happens there should aviation fuel taxes be dedicated to aviation facilities? Either airway improvements or airport improvements or other things? Is there a lessening of that effect on the industry right now by virtue of that dedication?

Mr. IGNATIUS. Mr. Chairman, the industry does have and has had since 1970 a series of taxes that flow into an aviation trust fund, as you know, for the airway system and for the airports under the Federal Airport Development Aid program. These are user taxes that we have supported to the extent necessary to get the job done. And it may well be that those taxes will have to be increased somewhat because there is a massive program that has been proposed by the administration to rebuild the Nation's airways over the period of the coming decade. That will require higher taxes from the various users of the air transport system. We don't like to pay those higher taxes, but we feel it is necessary to modernize and expand those facilities. And, therefore, we are prepared to pay our share of it.

Senator WALLOP. Would they have the same effect on the industry in terms of immediate effects? I know that your ultimate benefit is an improved airway system, but I am talking about immediate effects.

Mr. IGNATIUS. Well, I think to some extent it would have some effect because while the tax is an ad valorem tax on the ticket, the passenger tends to see it as a single price. And so to the extent the tax increased, it has the effect of increasing the ultimate cost to the traveler. Thus, it could have some negative effect on demand, but I don't think in this case it would be terribly significant. But it's a factor.

But we feel in this case that the need is so apparent that we must get started, or we will not have the capacity in the air and on

the airports to meet the demand for both public and private aircraft transportation. So we feel that must be supported.

Senator WALLOP. In each instance where aviation fuel tax was dedicated or undedicated is the immediate specific effect on the travel industry the same?

Mr. TOOHEY. Well, I think probably in large measure it would be. And one of the concerns of the travel and tourism industry is the proliferation of this type of revenue-producing proposal. As I mentioned in my testimony, you can't view one of these in isolation. With the States increasing gasoline, the cost at the pump and Federal proposals to do the same thing—all of this makes the cost of travel more expensive. But by the same token it is necessary that the infrastructure that supports the travel and tourism be maintained. And so we would have a deep interest in the upkeep, the preservation, of our national highway system and airports and airways that make travel and tourism possible.

It's a case, I suppose, Mr. Chairman, the lesser evil.

Senator WALLOP. Ms. Hall—I think I asked you—if there is a fuel tax that it should be dedicated for improvement of the Nation's highways?

Ms. HALL. Well, we are not nearly as concerned about completion of the highway system. We are much more concerned about preserving and upgrading the highway system that we already have.

But, yes, we absolutely think that if the Federal excise tax on gasoline is increased that it should go into the highway trust fund to be used for highways.

Senator WALLOP. I'm not saying that we should stop working on those roads that just stop after going over three bridges. I don't know who would buy them. There might be some benefits. But they are certainly there, all around the country.

Well, I appreciate your testimony and from all the other people that have come here this afternoon. The interesting dilemma that is developing here is that people view the obligation to lower the level of deficit spending and continue the level of spending and try to find the means to fund both those daydreams. We have the other problem as to how to restore significant enough elements of the economy so that any of the various interest represented here can continue to exist. Maybe there was a time I think for Solomon in all these things to select out the means to raise the revenues and the means to provide the courage for those who give rhetorical support to the concept of lowering expenditures. But if everyone is willing to give voting support for it, I guess it is now.

If any of you have secret ideas you wish to include in your testimony, we would be happy to receive it.

And with that, my very great appreciation to you for being willing to testify on such short notice.

The subcommittee will stand adjourned.

[Whereupon, at 5:17 p.m., the hearing was adjourned.]

[By direction of the chairman the following communications were made a part of the hearing record:]

Pacific Resources, Inc.

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Comments

of

Pacific Resources, Inc.

Hearings on Energy Taxes

Senate Finance Committee

Subcommittee on Energy and Agricultural Taxation

June 21, 1982

Pacific Resources, Inc. (PRI) is a Honolulu-based independent energy company with subsidiaries located in Hawaii and on the U.S. West Coast. PRI"s prinicpal operations include Hawaiian Independent Refinery, Inc., a 67,900 barrel- per-day refinery and Gasco, Inc., a distributor of synthetic natural gas and propane.

PRI would like to make four key points: there should be no new energy tax; if a new energy tax is imposed, the worst possible choice would be an oil import fee; any new energy tax should be as broad-based as possible; and, the collection of any new tax should be structured so that the domestic refining industry is not forced to absorb any portion of the fee.

A new energy tax would only prolong the nation's economic difficulties. History teaches us that a country cannot tax itself out of a recession. An energy tax would remove disposible dollars from the consumers of America at a time when those dollars are desperately needed. The brightest spot in the economic news of recent months has been the decline in energy prices generally and in petroleum prices in particular. A new tax would remove the benefits of this decline and contribute to a new inflationary spiral.

If Congress decides that an energy tax must be imposed, all of the alternatives should be carefully considered. Each possible new energy tax

should be analyzed in terms of its impact on the economy, its impact upon the energy consumers of America, and its impact upon the nation's energy industry. When these standards are applied to the various energy tax proposals, it is clear that an oil import fee would be the worst choice.

An oil import fee would have a devastating impact on our economy. According to the Congressional Research Service, a $5 per barrel oil import fee would have the following economic impacts:

-The Consumer Price Index would be increased by 1.4 percent in 1983 and 1.5 percent in 1984;

-Total employment would be reduced by 31,000 jobs in 1983 and 96,000 jobs in 1984; and

-The federal deficit would be reduced by $3.5 billion in 1983 but would be increased by $5.1 billion in 1984.

Thus, the CRS finds that an oil import fee would have a severe impact on our struggling economy and it would have, at best, only a moderate impact on reducing the federal deficit. It is difficult to believe that Congress would allow the nation to pay such a great price for so small a return.

Next, an oil import fee would have a grave impact on energy consumers, both individuals and businesses; and, this impact would not be spread equitably. Rather, it would be focused on regions and industries that are dependent on petroleum imports. The resulting inequities, whether to areas such as the Northeast or Hawaii or to oil burning electric utilities, would inevitably result in an exceptions or hardship procedure. The energy

regulatory bureaucracy would again dominate the activities of the oil companies. As no mechanism for collecting an import fee is presently in place, a new system would have to be devised and implemented. While this process would be very beneficial to energy lawyers in Washington, it would hardly be fair to the taxpayers of America.

The imposition of a tax on any narrow segment of the energy industry would have disruptive effects within the industry. As an oil import fee would only apply to a minority portion of one source of energy, many competitive relationships within the energy industry would be altered. Non-petroleum energy sources would be more attractive, encouraging shifts to coal and natural gas. If the government believes that such shifts are desirable, then it should implement legislation to encourage substitution of non-petroleum energy sources. The government should not, however, disrupt the competitive structure of the energy industry as an incidental effect of raising new federal revenues.

An oil import fee is a highly inefficient method of raising new federal revenue. Assuming, as is predicted, that domestic oil prices rose by an amount equal to the fee, a $5 per barrel oil import fee would cost oil consumers $29 billion in its first year. The Congressional Budget Office estimates that the federal Treasury would receive a net of $11-13 billion from a $5 per barrel import fee in 1983. Thus, the federal Treasury would receive only 38-45 cents of each dollar of the increase in oil prices that would be attributable to an oil import fee.

Finally, in legislating any new energy tax, Congress should give serious consideration to the method of collection of the tax. The nation's domestic refining industry is already troubled; many refineries have closed and many others are losing money on every barrel of oil they run. This vital sector of the energy industry should not be burdened with the absorption of a portion of a new energy tax. Therefore, any new energy tax should be collected in a manner which would minimize the risk of domestic refiners being forced to absorb part of the tax.

PRI is strongly opposed to the imposition of any new tax on energy. A new energy tax would be bad energy policy and worse economic policy. Though no new taxes are desirable, an energy tax is particularly ill-suited for the nation's present economic dilemma.

AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS

JOHN A. CLEMENTS, President
Commissioner
New Hampshire Department of Public Works
and Highways

FRANCIS B. FRANCOIS
Executive Director

April 8, 1982

The Honorable Robert Dole
Chairman, Senate Finance Committee
2227 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Dole:

We are aware that the Senate Finance Committee is now deeply engaged in considering alternatives for meeting the budget crisis in which we find ourselves. In writing to you at this time, we want to offer our views on certain aspects of the budgetary situation, in the hope they will be of use to you in making decisions over the next several weeks.

There are two revenue measures now under general discussion in Washington that have our particular interest, and we would like to offer observations on both. The first is the equivalent 5¢ per gallon raise in highway user fees which has been advanced by Secretary Drew Lewis of the Department of Transportation, and the second is the proposed $5 per barrel tax on imported petroleum.

Turning first to the Lewis proposal, it has been courageously advanced in this time of budgetary crisis by the Secretary because he believes the immediate needs of our nation's highways and mass transportation systems demand attention now. Speaking on behalf of the public officials responsible for the construction, maintenance and operation of highway and transportation systems in the states, Puerto Rico and the District of Columbia, we share the Secretary's opinion that the need for significantly increased revenues now is critical.

In our professional judgement, the needs of the Federal-aid portion of our nation's highway system requires increased revenues equivalent to an effective doubling of the present 4¢ per gallon motor fuel tax, which has not been adjusted since 1959. The Federal Highway Administration and other experts on the condition of our nation's highway system share our judgement of this need. Currently, some 10 percent of the Interstate system is badly in need of restoration, and this need increases each year. We nationally face a bridge restoration need of over $50 billion, and our primary, secondary, and urban highways must receive greater attention to remain serviceable. Citizens and business enterprises are now paying the costs for the poor condition of a growing portion of our highway system, and bad roads are an expanding factor leading to a decline in national productivity.

We would note that many state legislatures have been moving to enact measures to increase revenues available for the state share of our highway needs, and other legislatures are even now considering the matter. Our recent AASHTO survey of member departments indicates that the states are prepared to match a Federal-aid Highway program in the $12 to $14 billion range, a program level that would come close to meeting the need. Secretary Lewis' 5¢ proposal, with 4¢ earmarked for the Federal-aid Highway program, would enable a program of this size.

A feature of Secretary Lewis' program is the use of revenues from 1¢ of his proposed increase for mass transportation, which will help meet the needs of our mass transportation system. If those needs are not addressed, the economic problems of both the public and private sectors of many cities and rural areas will increase, and our national transportation system will suffer.

We recognize that Secretary Lewis' proposal is not now formally before you. Nevertheless, we ask that you take it into account, when making decisions on revenue measures.

Addressing now the oil import tax, we have a number of concerns that we hope will be taken into account as you discuss the measure. We note that such a tax will have an across-the-board impact on the American economy, because petroleum is utilized for motor fuel, heating and power generation purposes, in the plastics industry, and elsewhere. Given this broad impact, the oil import tax could thus cause a significant increase in the general inflation rate. Further, to the extent such a tax functions as a disincentive to motor fuel usage, it will act to reduce highway user fee collections from fuel taxes at the same time that the inflation impact of the import tax is increasing construction costs. To this extent, it will make the existing highway needs situation worse, unless provisons are also made to substantially increase Highway Trust Fund revenues.

In contrast to the oil import tax, the impact of Secretary Lewis' 5¢ proposal would be largely confined to those who purchase motor fuel, the users of our nation's highways. It would thus not act adversely across the entire economy in the manner of the oil import tax. Further, if the revenue from this proposal is fully utilized in the Federal-aid program it would result in a direct positive impact on the American economy, by providing increased funds to purchase materials and labor, and by helping to arrest further deterioration in our transportation system with a consequent positive impact on productivity. Finally, the Secretary's proposal would also offer a two year, $8 billion positive impact toward the Federal deficit situation, because of the inherent lag between authorizations and outlays in the Federal-aid Highway program.

We hope these views will be of use to you, in making decisions on these and other tax measures. If there is any way in which we can be of assistance to the Committee, please do not hesitate to let us know.

Very truly yours,

Francis B. Francois
Executive Director

FBF:cam
cc: Members of the Committee
AASHTO President John Clements
AASHTO Vice President Henry Gray

AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS

JOHN A. CLEMENTS, President
Commissioner
New Hampshire Department of Public Works
and Highways

FRANCIS B. FRANCOIS
Executive Director

June 8, 1982

The Honorable Malcolm Wallop, Chairman
Committee on Finance - Subcommittee on
Energy and Agricultural Taxation
2227 Dirksen Senate Office Building
Washington, D. C. 20510

Dear Senator Wallop:

We have noted that your Subcommittee will be holding a hearing on June 9, 1982, to take testimony regarding a number of possible tax options under consideration in the Senate. We respectfully ask that this letter be made a part of the record of that hearing, on behalf of the public officials responsible for directing the departments of highways and transportation in the states, the District of Columbia and Puerto Rico.

As we understand it, the Subcommittee is considering a series of options, including the following:

- an ad valorem tax on producers of all fuels;
- a tax on all fuels based on their energy content;
- a fee on imported crude oil and petroleum products;
- an excise tax on imported and domestic oil; and
- an increase in the Federal motor fuel tax.

Of these, we are obviously most concerned with the last.

Earlier this year, we wrote to the Chairman of the Senate Finance Committee, offering our observations on a motor fuel tax increase and a then proposed $5/barrel tax on imported petroleum. Because that letter is also applicable to the matters now under discussion, I am enclosing a copy for the record of the June 9 hearing.

The Federal motor fuel tax has traditionally been reserved for supporting the needs of our Federal-Aid Highway system. We believe it should continue to be reserved for our surface transportation needs, and that if the decision is made to increase the present motor fuel tax then resulting revenues should be placed in the Highway Trust Fund.

As noted in our April 8 letter, an increase in the Federal motor fuel tax of 5¢ per gallon would largely meet existing needs in the Federal-Aid Highway program. Further, because of the time delays that necessarily occur in the Federal-Aid Highway program between when projects are initiated and liquidating cash is required, such a 5¢ increase would result in a temporary accumulation of some $4 billion in the Highway Trust Fund for each of the first two years of the new tax. Under the unified Federal budget, this accumulation would help offset the Federal deficit by a like amount. Thus, adjusting the motor fuel tax can work toward two national goals simultaneously; assuring a more adequately funded highway program and lowering the expected Federal deficit over the next two years.

While AASHTO has no formal position for or against the other tax options the Subcommittee is considering, we would hope that the concerns we expressed herein, and in our April 8 letter to Chairman Dole will be given careful consideration. We believe that whatever action is ultimately recommended, it should not jeopardize meeting the proven needs of our national transportation system.

If there is any way in which we can be of assistance to the Subcommittee, do not hesitate to let us know.

Very truly yours,

Francis B. Francois

Francis B. Francois
Executive Director

cc: Members of the Subcommittee
John Clements, AASHTO President
Henry Gray, AASHTO Vice President

American Iron and Steel Institute

STATEMENT SUBMITTED
FOR THE RECORD
To The
SUBCOMMITTEE ON ENERGY AND AGRICULTURE TAXATION
SENATE FINANCE COMMITTEE
On
ENERGY TAX PROPOSALS

The American Iron and Steel Institute (AISI) is taking this opportunity to comment on various proposals to raise revenues by imposing broad-based taxes on energy consumption. AISI is a trade association representing 67 domestic steel companies which account for over 90% of the raw steel production capability in the United States.

The steel industry accounts for about 3% of total energy consumption in the United States, and about 8% of all industrial consumption. In 1981, nearly 90% of this consumption was in the form of coal or natural gas.

The proposed tax on energy sources would have a devastating impact on many steel companies which are already operating at a loss. It has been calculated that ad valorem tax of 5% on all sources of energy could increase the energy cost to the steel industry by $357-400 million annually if the tax is levied at the point of consumption. In order to raise a comparable amount of revenue from a tax based on total BTU consumption, a rate of about 17.3¢ per million BTUs would be required. This also would result in additional cost to the steel industry of approximately $400 million annually. The industry simply cannot absorb costs of this magnitude without severe financial consequences leading in some cases to failure of the business.

American Iron and Steel Institute

AISI strongly opposes current proposals to raise general revenues by imposing new or increased taxes on energy sources, whether in the form of an ad valorem tax, a consumption tax based on BTU contact, an oil import fee, or any similar tax. AISI believes that adoption of any additional broad-based energy taxes would constitute both poor economic and energy policy. It would:

1. Exacerbate an already serious problem of the domestic industry to withstand foreign competition.

2. Potentially raise the energy cost of steel companies more than the cost of other companies manufacturing competing products in the domestic market.

3. Impede the ability of consumers to finance additional conservation and renewable resource or alternate fuel-fired units by diverting needed capital away from the private sector.

4. Create almost insoluable administrative and definitional problems, especially with a consumption tax based on BTU content

5. Add substantial , to inflationary pressures.

June 21, 1982

THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA

1957 E Street, N.W. • Washington, D.C. 20006 • (202) 393-2040 • TWX: 710-822-9406 AGC WSH

H. C. HELDENFELS, *President* RICHARD S. PEPPER, *Senior Vice President* JAMES D. PISCOCK, JR., *Vice President*

A. A. BENINTEND, *Treasurer* HUBERT BEATTY, *Executive Vice President*

June 23, 1982

The Honorable Malcom Wallop, Chairman
Subcommittee on Energy and Agricultural Taxation
2227 Dirksen Senate Office Building
Washington, D. C. 20510

Dear Senator Wallop:

We would request that this letter be included in the printed record of the Subcommittee's June 9, 1982 hearing on various energy tax revenue raising options.

This letter speaks to possible alternative #5, "an increase in the Federal excise tax on gasoline and other motor fuels."

This nation desperately needs an adequately-funded Federal-aid highway program, and State and Federal transportation officials and industry representatives are in agreement that an adequate level of funding for the program should not be below $12 billion at this time.

To fund such a program will require the equivalent of at least an immediate doubling of the Federal highway user fee. AGC is strongly supporting Secretary of Transportation Drew Lewis' proposal to increase federal highway user fees by the equivalent of 5 cents-per-gallon, which will increase revenues by $5 to $6 billion annually, bringing the Federal-aid highway program to the $12 billion level in FY 1983. We do so in the firm belief that Secretary Lewis is offering a realistic, workable and equitable proposal that provides the user fee revenues and the program authorizations that we believe are required to ensure that our highway transportation system will be adequately maintained.

Consider the following facts:

- Ten percent of the Interstate system needs immediate resurfacing.

- Almost half the Interstate system will need major repairs by 1995 and other highway systems are in even worse shape. More than half the Primary system will reach the end of its design life during the 1980's.

THE FULL SERVICE CONSTRUCTION ASSOCIATION FOR FULL SERVICE MEMBERS

- All levels of government, taken together, are currently spending only half of what is needed just to keep this nation's highways serviceable.

- The basic four cents per gallon Federal highway user fee has not changed since 1959 and is now worth less than a cent.

- User fees have been the centerpiece of the Reagan Administration's plan to restore marketplace incentives for efficient transportation services.

- An increase in highway user fee revenues at the Federal level is a necessary precondition to the turnback of any highway program responsibilities to the States under any Federalism proposal since no one gains when the States are bequeathed increased responsilibities without adequate financial resources or the Federal Government is left with inadequate resources to properly administer even greatly reduced program responsibilities.

- A $5 to $6 billion increase in highway user fee revenues at the Federal level would have a significant and positive nearterm fiscal effect on the total Federal budget.

This nation's economic future is vitally linked to an adequate transportation system. Continuing to defer much-needed capital investments in our transportation system will result in inefficiencies and increased product costs. It will erode private sector productivity gains and it will most certainly dampen economic recovery. This is particularly true in the construction industry--an industry currently suffering a 19 percent unemployment rate, twice the national average, and an industry which last year saw contractor failures hit a new high.

Accordingly, we urge the Subcommittee to keep in mind the needs of the nation's highway system as it considers various energy tax revenue raising options. Should the Subcommittee decide that the Federal motor fuel tax should be increased at this time, we request that the resulting revenues be placed in the Highway Trust Fund, thereby ensuring that this nation's essential highway needs will continue to be met.

Sincerely,

John R. Gentille

John R. Gentille
Director
Highway Division

JRG:le

STATEMENT ON BEHALF OF

THE EDISON ELECTRIC INSTITUTE

BEFORE THE

UNITED STATES SENATE FINANCE COMMITTEE

SUBCOMMITTEE ON

ENERGY AND AGRICULTURAL TAXATION

REGARDING
ENERGY TAX OPTIONS

June 9, 1982

OIL IMPORT FEE/ENERGY TAXES

The Edison Electric Institute (EEI), the national association of the investor-owned electric utility companies, opposes an import fee on oil or oil products. The EEI member companies serve 99 percent of all customers of the investor-owned segment of the industry and 76 percent of all users of electricity in the United States. The widely discussed import fee of $5.00 per barrel on oil is inequitable, impacts most domestic and imported oil prices, raises the cost of natural gas and could cost utility customers $1.5-$2 billion annually. Because consumers of electricity pay fuel charges, the burden of the fee would fall directly on the customers. Utilities burning oil will feel the effect of the import fee whether or not their oil happens to be imported or domestic. In 1981, the 350 million barrels of oil burned to produce electricity provided 9 percent of the total U.S. electricity supply. At the end of the decade in 1990, approximately 440 million barrels of oil are projected to be used to generate about 7.6 percent of the nation's electricity.

An oil import fee would have a detrimental impact upon consumers of electricity because it is inherently inequitable. Some utilities and some regions are much more dependent on oil than others. For example, in New York and New England, oil generated 54 percent of the region's electricity in 1980. Oil is also widely used in California as well as in Florida, the mid-Atlantic states, the Gulf Coast, and in

the mid-West. Electricity consumers in these localities shoulder a disproportionate share of the import fee.

Industries in these regions which rely on electricity will find their production costs increasing, making their goods and services more expensive. Nationally, in 1980 fuel costs were approximately 38 percent of the total cost of producing electricity. However, in California, the cost of fuel comprised 77 percent of the cost of producing electricity, and oil represented nearly 42 percent of the fuel used in 1980. In that same year fuel represented 55 percent of the cost of electricity in Florida; in Louisiana 60 percent; in Connecticut 73 percent; and in Maine 76 percent. Where other fuels are used to generate electricity, the figures are much different as in Ohio fuel was 31 percent; in Illinois 39 percent; in Minnesota 29 percent; in Georgia 37 percent; and in Montana 31 percent. These state-by-state disparities indicate the inequity of an oil import fee which adds substantially to the price of fuel.

Not only the price of imported oil will be affected by an import fee, but also domestic oil prices will be affected. An oil import fee is a price support mechanism interfering with the free market. It is likely to result in a price increase for U.S. produced oil and products as well as imported oil and products since domestic producers and refiners would raise the economic rent for their product when handed the opportunity on the basis of government policy.

Between the import fee and the additional price charged for domestically produced oil, the additional cost could approximate $1.5-$2 billion to electric consumers alone. The import fee affects

all consumers of electricity produced from oil, whether those customers can afford to bear the burden of this regressive means of raising revenue or not. Utility use of oil is not expected to change dramatically during this decade, resulting in a substantial cost throughout the time an import fee is in effect, since approximately 350-450 million barrels of oil are forecasted for annual use. While the percentage of oil as a means of generating electricity should decrease somewhat throughout the decade, actual oil consumption is projected to remain about the same.

A portion of the additional cost to consumers might result from a concomitant rise in natural gas prices. Some natural gas purchase contracts have escalator clauses tying the price of natural gas to oil. An import fee could raise those prices also to the consumer of natural gas if that particular escalator clause is in a contract. Additionally, in New Jersey and California, the price of natural gas used as boiler fuel by utilities is tied to the price of oil by the public utility commissions. The import fee would add to the cost of generating electricity at a time when the public is resisting significant utility rate increases.

A final argument against the imposition of an oil import fee is the negative effect it would have upon economic recovery. Some states where utilities burn oil, such as Michigan, have weak economies. An oil import fee only adds to the cost of doing business in that state and other similarly affected states, thereby slowing economic recovery.

In sum, an oil import fee acts against the free market and distorts true energy investment costs. It is a regressive tax that will strike at the pocketbook of every American, and is inequitable in that it impacts more heavily upon some geographic areas and some consumers than upon others.

With regard to the other proposed alternative taxes on energy, EEI is strongly opposed to the imposition of any across-the-board energy tax, be it in the form of a BTU tax, an ad valorem tax, or any other broad-based energy tax. It would be premature, however, at this time to comment any more specifically upon the alternatives proffered as many important details regarding the exact structures of these taxes are not now available. Should more detailed proposals describing the rate of tax, the manner of its levy, etc., become available at some point in the future, the Institute would be happy to submit more detailed comments at that time.

The Institute is grateful for the opportunity to submit its views on this subject.

ENERGY TAXES AND THE OIL IMPORT FEE

Testimony before

The Subcommittee on Energy and Agricultural Taxation

U.S. Senate Committee on Finance

June 9, 1982

by

Richard T. Ashman

Corporate Vice-President - Government & Industry Relations

Holiday Inns, Inc.

MR. CHAIRMAN:

Thank you very much for the opportunity to testify before your committee. My name is Richard Ashman and I am Corporate Vice President of Government and Industry Relations for Holiday Inns, Inc. We have over 1700 hotels in the 50 states and 58 countries around the world. We also own Perkins Cake and Steak Restaurants, Harrah's, and Delta Steamship Lines.

Holiday Inns, Inc. strongly opposes any further taxation of petroleum except for a federal gasoline tax earmarked to maintain and improve our nation's deteriorating highways and bridges. The social, economic and political consequences of any additional tax on petroleum or an oil import fee is discriminatory and inappropriate.

We subscribe to the many arguments against an oil import fee that have been advanced today by a broad coalition of farmers, heating oil users, utilities, oil companies, public interest groups and small business interests. These groups have provided evidence showing such a fee to be inflationary, regressive and inequitable. Even the Congressional Budget Office estimates that the adverse effects of the fee could plunge the federal deficit $5 billion deeper in 1984.

Additionally, arguments emphasizing the detrimental to impact of an oil import fee on the citizen who must travel to and from work, or on business or for convenience, are even more persuasive.

Our industry services the traveler - the backbone of almost every other business or industry in the United States. The mobility of the American public is the very fabric of interstate commerce and our nation's economy. An oil import fee would unfairly penalize the American Traveler . . . travelers who:

1) have already suffered through eight years of dramatic and continual escalation in the price of gasoline. Because fuel prices increased at a far greater rate than inflation, the traveler was forced to bear a heavier and disproportionate share of the burden. Many businesses relying on travel were unable to survive.

2) already pay a disproportionate (almost 3/4) share of all federal excise taxes as shown by the following table from the Fiscal 1983 Budget document. Please note that taxes identified by a (*) are imposed indirectly on petroleum products. Additional taxes are imposed on the traveler.

FEDERAL EXCISE TAXES
(In Millions of Dollars)

	1981	1982 estimate	1983 estimate
Windfall profits tax (*)	$23,290	$24,196	$21,275
Gasoline manufacturers tax (*)	4,048	4,008	3,958
Distilled spirits tax	3,819	4,182	4,080
Cigarette tax	2,539	2,694	2,622
Beer tax	1,604	1,672	1,644
Airline Passenger, freight tax	1,180	1,265	1,458
Telephone, teletype, service tax	999	796	656
Truck, bus, chassis, bodies tax	664	847	1,184
Tires, tubes, rubber	644	653	662
Diesel, spec. motor fuels tax (*)	561	575	613
Heavy motor vehicles tax (*)	237	264	270
Wine tax	244	243	245
Black lung coal tax	237	507	612
Truck, bus accessories tax	234	305	270
Lubricating oils tax (*)	101	105	105
TOTAL EXCISE TAXES	$40,420	$40,839	$42,993

Source: President's Fiscal 1983 budget, The Washington Post

3) have already absorbed additional taxes on gasoline this year. Twenty-seven states increased gasoline taxes in 1981 and 1982 and eighteen more have tax increases pending.

4) anticipate imposition of much needed 5¢/gallon excise tax dedicated to federal highways proposed by the Department of Transportation.

5) have experienced only temporary abatement in the continual pressure on price increases for transportation fuels. Just when the traveler is gaining some needed relief, the Congress proposes to single out petroleum once again and artificially hike gasoline prices with a tax on oil or an oil import fee.

Proponents of the fee act as if the American consumers were getting a free ride or a special benefit from a free market-induced ten cent decrease in gasoline prices. They mislead the public into believing that a traveler who paid $7.50 for a tank full of gas in 1974 and now pays $18.00 for the same amount deserves to be penalized further. Import fee supporters claim that now is the perfect opportunity to interfere with the free market, a market, I may add, which has only been free for 17 months and is just beginning to adjust while positively effecting fuel costs.

Now is not the time to meddle with the free market. There is no loophole to plug. No one is receiving any special benefit from $1.30 per gallon gasoline. None of the conventional populist reasons for tax enhancement is apparent here.

The only apparent reason for an oil import fee or further taxation of petroleum is political expediency. Congress and the Administration are searching for additional revenues to help "balance the budget" and, because oil is a very visible commodity, it is an easy tax target. Yet, proponents for the oil import fee forget that heaping more burdens upon those already heavy-burdened is bad eonomics and worse politics.

Thank you, Mr. Chairman. We earnestly urge you to reject any additional tax, fee or tariff on petroleum except for a gasoline user fee dedicated to the maintenance and improvement of federal highways and bridges.

CHEMICAL MANUFACTURERS ASSOCIATION

ROBERT A. ROLAND
President

June 11, 1982

The Honorable Malcolm Wallop
Chairman
Subcommittee on Energy and
Agriculture Taxation
Committee on Finance
U.S. Senate
Washington, DC 20510

Dear Mr. Chairman:

The chemical industry supports sound energy policy that allows energy-intensive industries to compete in domestic and international markets. We strongly oppose an [redacted] or fee because it would disrupt that policy by rendering U.S. industry uncompetitive internationally and distort interfuel competition in this country. Among energy-intensive industries, the chemical industry would be uniquely disadvantaged by an energy tax or fee because of its dependence on oil and gas for both feedstock and fuel purposes.

CMA is a nonprofit trade association whose company members represent more than 90 percent of the productive capacity of basic industrial chemicals within this country. The chemical industry uses about 5.7 percent of the nation's liquid petroleum consumption as feedstocks and about one percent for fuel. The chemical industry also consumes about 25 percent of all industrial natural gas, which amounts to over 10 percent of the United States' total natural gas use. Over half of this consumption, or approximately one trillion cubic feet per year, is for nonsubstitutable feedstock and process uses. In 1981, CMA members reported a total fuel use of over 3,100 trillion Btus in addition to the substantial feedstock use of natural gas, petroleum and petroleum products. Also, the results of the CMA survey of energy conservation progress indicate that in 1981 chemical companies on the average reduced energy use per unit of output by 24.2 percent compared with 1972.

An energy tax or fee is not in the national interest because the anticipated federal revenue increase will not compensate for the adverse effects on an economy already in a prolonged recession. While many forms of energy taxes have been discussed as revenue measures, the oil import fee has been thoroughly analyzed in government and private studies because of past, negative experience with administration of the mandatory oil import programs. The comments which follow are specific to an oil import fee and are generally applicable to all energy taxes.

- Inflationary Impact -- An oil import fee would cause not only imported oil prices to increase, but also the prices of domestic oil, natural gas and other fuels. All energy-intensive industries would be adversely affected relative to foreign competition due to the increased cost for fuels. Also, many downstream industries are dependent upon chemicals including those derived from petroleum feedstocks.

- Adverse Impact on Balance of Payments -- The chemical industry contributed an $11.3 billion positive trade balance in 1981. An oil import fee would severely jeopardize this beneficial contribution to the total U.S. economy with corresponding loss of employment. Many domestic industries already face the acute inequities of discriminatory international trade practices. An oil import fee, which would mean higher energy costs, would put energy-intensive industries, such as the chemical industry, at an even greater disadvantage in competing with foreign industries. Therefore, an oil import fee would "export" American jobs.

- A Tax or Fee is Inequitable -- Some sectors of the chemical industry are more dependent on crude oil and petroleum products for feedstocks. On a "Btu basis", about 45 percent of petrochemical feedstocks are derived from crude oil and petroleum products. Consequently, companies dependent on such feedstocks would be severely disadvantaged.

- An Unworkable Administrative Burden -- An oil import fee program may appear simple, but past experience indicates that its administration will be difficult, require an extensive federal bureaucracy, costly and subject to abuse.

Energy taxes such as a fee on imported petroleum would be inflationary and adversely affect the nation's balance of payments. Moreover, they are potentially inequitable and difficult to administer. If the

Congress determines that it must reduce the budget deficit through means other than government spending cuts, corrective legislative action within the existing tax structure will optimize revenues. Total phased deregulation of natural gas wellhead prices will increase revenues while restoring marketplace pricing to all energy sources.

The chemical industry continues to be supportive of proposals reflecting sound energy policy. If we can provide any additional information, please let me know.

Sincerely,

Robert A. Roland
President

EMPIRE STATE PETROLEUM ASSOCIATION, INC.
8 WESTCHESTER PLAZA • ELMSFORD, N.Y. 10523 • 914-592-8810

STATEMENT

of the

EMPIRE STATE PETROLEUM ASSOCIATION

on

ENERGY TAXES

before the

SUBCOMMITTEE ON ENERGY AND AGRICULTURAL TAXATION
COMMITTEE ON FINANCE
U.S. SENATE

Washington, D.C.

June 15, 1982

The Empire State Petroleum Association (ESPA) submits this statement on the Energy Implications of Proposed Energy Taxes. ESPA is the association representing the independent gasoline distributors and home heating oil marketers of New York State. There are over 500 independent marketer members in ESPA, serving over 40 percent of the gasoline needs and approximately 75 percent of the home heating oil needs of New Yorkers. New York consumers use more oil for residential space heating, and for industrial fuel, than any other state in the nation. Thus, any increase in taxes on oil would substantially impact on New York consumers and New York's economy.

ESPA's members and their customers are deeply concerned that Congress may attempt to raise substantial amounts of additional revenue from energy consumers, ostensibly to lower the federal deficit and improve economic conditions. We are convinced that increased energy taxes will not benefit the economy. Nor will any of the options being considered serve energy policy objectives.[1/] To the contrary, new energy taxes would impact directly and regressively on consumers, thereby adding to inflation and stalling economic recovery. A petroleum tax or a more general energy tax also would harm competition, both

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1/ An option that could serve energy policy goals and economic recovery is not being considered today: decontrol of natural gas prices. Natural gas decontrol, without any new tax, could raise as much as $49 billion in new federal revenue between 1982 and 1985. See Madison Consulting Group, the Tax and Revenue Effects of Natural Gas Deregulation, October 1981.

within the energy industry and in many consuming sectors, cause wasteful temporary fuel switching, and lead to a de minimus decrease in energy imports.

Every energy tax option being considered will increase consumer costs significantly in excess of the net revenue gain to the federal government. Some of the consumer cost increases would be pure windfalls. They will flow to certain producers, competitors who are not taxed, and foreign exporters of natural gas, all of whom could charge higher prices. In addition, the costs would fall unfairly on specific sectors, regions and consumers, without regard for equity, sound tax policy or energy objectives. For these reasons we firmly oppose any increase in energy taxes at this time.

I. OIL IMPORT FEE/PETROLEUM SEVERANCE TAX

A. Adverse Economic Effects

The most harmful alternatives under consideration involve taxes solely on petroleum, either in the form of a petroleum severance tax or an oil import fee. A petroleum tax or fee would seriously impair economic recovery, and would impose grossly disproportionate burdens on millions of consumers.

But a petroleum tax or fee would not just hurt oil consumers; it would hurt all consumers. It will strike the economy just like an OPEC price increase, raising all energy prices and contributing substantially to inflation. Indeed, it would have twice the adverse impact, per dollar, of the 1970's OPEC price

increases. When OPEC raised prices in the 1970's, domestic oil prices were controlled. Thus, less than one-half of our oil prices increased. But today, oil has been decontrolled. Consequently, an oil import fee or a petroleum tax would raise all oil prices, not just the price of imports, by the amount of the tax or fee. Prices for gasoline, heating oil, jet fuel, chemical feedstocks and other petroleum products all would likely rise to their highest levels in history this summer and fall.

These effects make no sense if our economic objectives are economic recovery and a reduction in inflation. A $5 per barrel fee would increase the rate of inflation by .5 to 1.3 percent[2/] and result in a loss in GNP of about $30 billion.[3/] It also would increase unemployment by 100,000 to 400,000 persons.[4/] Surely, even if one considers the attenuated positive effect a petroleum fee or tax might have on interest rates, caused by its minor impact on the federal deficit, this is not a mechanism that will assist in economic recovery.

2/ See Petroleum Industry Research Foundation, Inc., "The Oil Import Fee Issue," April 19, 1982; Congressional Budget Office, "Oil Import Tariffs: Alternative Scenarios and Their Effects," April 1982 ("CBO Study").

3/ Id.

4/ CBO Study; Consumer Energy Council of America, "A Comprehensive Analysis of a Crude Oil Import Fee: Dismantling a Trojan Horse," April 1982.

B. Distortions and Inequities

In addition to its adverse macroeconomic effects, an import fee or a petroleum tax would cause severe regional, sectoral and individual inequities. Either a fee or tax would harshly, undeservedly and regressively tax the 40-50 million Americans who live in oil heated homes and who already pay the highest oil prices in history for their essential needs. Each would penalize these consumers for the greatest conservation success of the 1970's. A system of hardship exceptions and credits almost surely would be needed to ameliorate these inequities. But even with a complex system of regulatory exceptions, the impacts of a fee or tax would fall most severely and unevenly on consumers in the coastal areas, particularly in the Northeast and Northwest, and on industry and agriculture everywhere that use petroleum.

It is not fair to single out the families and businesses of America that depend on oil, when no economic or physical alternatives exist. It is not sensible to tax heating oil consumers above the world price for oil while the price of most natural gas is held from 10 percent to 60 percent of the oil price.

C. Energy Policy Effects

These inequities and distortions might be tolerable if they were the inevitable result of a critically needed change in energy policy. But they are not. Imposition of a petroleum tax would have no useful energy policy effect. The failure of the Fuel Use Act demonstrates that Congress can not effectively dictate fuels choices by regulation. Nor can it do so by taxation. In the absence of price and allocation controls, the market will transfer the incidence of these taxes to users of all energy products. In the industrial sector, only temporary and wasteful switching will result from this price shock.

The conservation effects would hardly be noticeable. Conservation of oil products has far outstripped conservation of other energy sources.[5/] Any reduction in oil use would be offset by increased natural gas consumption, the marginal source for which is imports.

Moreover, a tax or fee will deter storage of petroleum products by further increasing the cost of storage. This Committee is well aware of the inventory drawdowns that already have taken place. But inventory levels could fall even further if costs of storage increase. A petroleum tax or fee would surely cause a further reduction of inventories.

5/ See Eric Hirst and John Trimble, "Analysis of Household Primary Heating Fuel Consumption: Natural Gas and Oil," Oak Ridge, Tennessee, November, 1981. A copy is included for the Committee's record.

D. Anti-Competitive Effects

A petroleum tax or fee also would seriously impair competition, both within the petroleum industry and between competing fuels. An oil import fee would give a substantial competitive advantage to vertically integrated companies with domestic crude reserves. To a significant extent, a petroleum severance tax could be used by integrated companies to accomplish the same result. These firms could use this unfair advantage to drive thousands of independent marketers out of business. The fee or tax could be passed through by such firms disproportionately to independent marketers, or on specific products when demand is most inelastic, such as home heating oil during the winter.

Any petroleum tax or fee also would have devastating effects on interfuel competition. Just when the gap between oil and natural gas prices is narrowing, and inefficient fuel switching is ending, a fee or tax would send a shockwave through the petroleum market. The gap between fuel oil and natural gas prices would increase, and massive residential fuel switching would result. Such fuel switching has little, if any, conservation effect.6/ But it does drain limited consumer resources into wasteful energy related expenditures.

6/ See House Committee on Interstate and Foreign Commerce Report on H.R. 5726 (Energy Security Act), H.R. Rep. No. 96-727, 96th Cong. 1st Sess. p.16.

Equally devastating will be the shock, on January 1, 1985, to those consumers who have converted to natural gas. On that date, when most natural gas prices are decontrolled, average gas prices will rise to the price of alternative fuels. If a petroleum tax is in effect, gas consumers also would begin paying the equivalent of the petroleum tax. However, gas consumers would not be paying this tax to the U.S. government. This "tax" would be paid to natural gas producers, and to exporters of gas to the U.S., who would be able to charge higher prices for natural gas.7/ These consequences are the unavoidable result of a petroleum tax or fee.

II. BTU OR AD VALOREM TAX ON ALL FUELS

A broad based energy tax, on oil, natural gas, coal and electricity, may eliminate some of the more outrageous inequities of a petroleum tax, but it retains its ultimate detrimental economic effects: higher inflation, reduction in GNP, loss of jobs.8/ We have seen no evidence that either a BTU tax or an ad valorem tax on all fuels will assist economic recovery

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7/ A $5 per barrel fee or tax would increase natural gas prices by about $.85 per Mcf, or about $17 billion annually to gas consumers. (20tcf x .85/mcf).

8/ See Congressional Research Service, "Policy and Macroeconomic Aspects of a BTU Tax," May 3, 1982. The principal "advantage" of a tax on all fuels compared to a tax on petroleum is that the rate can be established at a much lower level and raise the same amount of revenue, because the tax base could be so much broader.

or serve usefully any energy policy objective. To the contrary, it would retard economic recovery and distort energy markets.

In addition, an ad valorem, BTU, or oil product tax would create cash flow problems for petroleum marketers similar to a petroleum severance tax or fee.9/ The increased costs of any "upstream" tax carried by marketers would necessitate increased borrowing and further strains on credit lines. The inevitable results would be further decreases in inventory levels, which could jeopardize national security; and more limited credit for homeowners, small businesses and farmers. This would jeopardize, rather than enhance, economic recovery. Given our current low petroleum inventory position, and the conditions in credit markets, these effects could hardly occur at a worse time.

A. Impact on Competitiveness of U.S. Firms

Any across-the-board energy tax raises the price of all energy in domestic markets, thereby making U.S. industry less competitive in world markets.10/ We will continue to lose our competitive edge if U.S. energy prices are raised above world

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9/ A petroleum product tax applied at the point of consumption, such as a gasoline excise tax, might obviate any increased costs of inventory.

10/ An oil import fee on a petroleum severance tax could have comparable adverse effects on U.S. competitiveness in world markets.

levels, while Canadian, Japanese, and European energy prices remain at market established levels. This increase in costs would have a particularly detrimental impact on our energy intensive industries, such as chemicals, synthetics, paper, and agriculture.

C. Competitive Injury

In addition, an across-the-board energy tax would cause competitive injury within the petroleum sector, comparable to that resulting from a petroleum tax. If the tax were imposed upstream, at or prior to the refinery gate, it would permit refiners to pass it through unequally on products, and unfairly to independent marketers. Some refiners could use their power in one market to pass through the tax while undercutting competitors in other markets. The resulting injury to competition ultimately would lead to further consumer price increases.

D. Distortions and Inequities

A broad based energy tax also would cause inequities, although the inequities would be less than those accompanying a petroleum tax. Of the across-the-board tax alternatives, an ad valorem, or percentage excise tax, would tax consumers the most unevenly. Indeed, if it were imposed at the wellhead, it would tax petroleum at rates 2 to 10 times the rate it taxes natural gas, because natural gas wellhead prices are held at artifically low levels by regulation. The differential between oil and natural gas prices would increase as a result of a wellhead ad valorem tax, creating further interfuel distortions.11/

11/ The tax rates imposed could be somewhat closer if an ad valorem tax were imposed on the final product just prior to distribution, such as at the refinery gate for petroleum or at the city gate for natural gas.

Ironically, an ad valorem tax would place the least burden on those who have access to and competitive advantage from old cheap price controlled gas, while placing the greatest burden on those who rely on more expensive fuels. This would distort fuel decisions and increase inequities.

A BTU tax would correct some of these inequities, but it would create inequities of its own. For example, a BTU tax applied to petroleum products would tax residual fuel oil at higher rates than gasoline, because its BTU content is higher. This differential serves no useful energy policy objective. In addition, coal would be difficult to tax fairly because of its broad range of BTU content.

CONCLUSION

The energy tax options being considered would create social and energy policy inequities, and would probably spawn new regulatory solutions. Each would do so without any discernible benefit to national energy or economic objectives. A tax on petroleum or on all energy would reverse the most favorable energy, economic development of the past year: the decline in inflation driven by a reduction in oil prices.

TESTIMONY OF
GWYNNE GREER GAZZAWAY
for the
National Association of Royalty Owners
Before the Subcommittee on
Energy and Agricultural Taxation
of the
Senate Committee on Finance
June 9, 1982

Mr. Chairman:

My name is Gwynne Greer Gazzaway and I live in Dallas, Texas. I am an oil royalty Owner and I make this statement in behalf of the National Association of Royalty Owners.

There are nearly 4,000 members of the National Association of Royalty Owners, which is based in Ada, Oklahoma, and over 38,500 members of the regional and state mineral and surface owner organization in 49 states, that have affiliated with my group.

A majority of royalty owners--and there are a total of over 2.5 million in the nation--is either retired or nearing retirement. Over 73 percent surveyed are over 63 years of age. Of these, 43 percent are on social security, 27 percent are widows, 12 percent are disabled, and nearly 5 percent are in health care facilities. The average royalty check per month, in a survey of 200 Oklahoma banks, was about $200 monthly.

Our most recent survey among 4,000 royalty owners also shows that occupationally 47 percent of royalty owners are retired and on fixed incomes. Twenty-one percent still work on farms and ranches. Only ten percent are in any way connected with the oil industry, usually as an employee of a well or oil field service company. Twenty percent responding were over 75 years of age. Our survey, which was the most active tier of royalty owners, our members, also proved that 30 percent exist solely on royalty income and social security. In 63 percent of the cases, other income, usually season crops or part-time labor, bolstered the efforts. Five percent do not accept social security and exist on royalty income alone. Blacks in Central Oklahoma, East Texas, Mississippi, and Northeastern Louisiana also account for a sizeable portion of royalty owners.

In the passage of the Windfall Profits Tax the rate of tax applied to royalty owners was the same rate applied to major oil companies.

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Soon after the enactment of the Windfall Profits Tax there was an awareness of the harsh and unjust burden that had been placed on royalty owners, many of whom were poor people. There was then enacted a provision for a $1,000 credit against the tax, but many royalty owners had incomes so low that they were not required to pay an income tax. Also, they had to wait to the end of the year to get the credit.

In the Economic Recovery Tax Act of 1981, royalty owners were granted a 2-barrel per day exemption which later was to be raised to a 3-barrel per day exemption.

We are making this statement today because of the large number of bills being introduced in the Congress, that would take away our 2-barrel exemption. There is one bill pending in the House of Representatives, of which the principal author boasts that he has 80 co-sponsors, and that bill would take the exemption away from all royalty owners.

The really tragic part was the elderly. One woman found herself with a total income of $350.00 per month. This included both her royalty and social security check combined. Another royalty owner, a taxi driver, would get approximately $150.00 monthly were it not for the Windfall Profits Tax. However, the Windfall Profits Tax takes approximately 40 cents from every royalty dollar. A ninety-year old black woman, now deceased, had no social security. Her small royalties were her only income. When we finally reached the $1,000 tax refund, this woman could no more understand how to do it than she could afford to hire an accountant. This is why the 2-barrel exemption is our first ray of hope.

In 1980, before the Windfall Profits Tax was taken from my income, my yearly income would have been approximately $25,000. After the Windfall Profits Tax took $6,000, I was left with $19,000. That year I had approximately $17,000 medical expenses. Many taxpayers experience an increase in their income, but they are not subject to a windfall profits tax. The selling price of the surface of the land may increase to an astronomical figure, but when land is sold there is no windfall profits tax applied. A professional man may experience a very great increase in his income, but he is not subject to a windfall profits tax on that increase. There is no windfall profits tax applied to the coal royalty owner or the timber royalty owner. Oil royalty owners alone are singled

out for the windfall profits tax.

There are some other facts that we should bear in mind, also. Oil income is not like other income. It is unlike income from farm crops, manufactured articles, the service industries, dividends, and rents, which can be produced year after year. For the oil royalty owner, once his oil is sold it is gone. It cannot be produced again. It is a sale of a capital asset.

I hope the day will soon come when the Windfall Profits Tax will end or be materially changed. The per barrel per day exemption does benefit the royalty owners who receive a modest amount, but there are other royalty owners whose benefit from the 2-barrel exemption is not very material and they are entitled to consideration. No royalty owner should be taxed at the same rate of a major oil company.

Mr. Chairman, I urge that the existing law which provides the 2-barrel per day exemption for royalty owners will not be done away with, and that further relief be granted to all royalty owners who are subject to a tax that is not applied to other segments of our economy.

I wish to thank you for the opportunity of making this statement.

Gwynne Greer Gazzaway

New England Fuel Institute

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STATEMENT

of the

NEW ENGLAND FUEL INSTITUTE

on

ENERGY TAXES

before the

SUBCOMMITTEE ON ENERGY AND AGRICULTURAL TAXATION
COMMITTEE ON FINANCE
U.S. SENATE

Washington, D.C.

June 29, 1982

The New England Fuel Institute (NEFI) is pleased to submit this statement to the subcommittee on Energy and Agricultural Taxation of the Senate Finance Committee. NEFI is an association of 1,264 independent retail and wholesale home heating oil dealers and distributors who sell their products in the six New England states. We have no refineries, pipelines, oil and gas wells. We are all residents of New England and small independent businessmen.

NEFI is deeply concerned that some members of Congress seek to raise taxes substantially for energy consumers. This tax increase is proposed ostensibly to lower the federal deficit and improve economic conditions. We are convinced that increased energy taxes on petroleum will not benefit the economy.1/ To the contrary, new petroleum taxes would directly and regressively impact consumers, thereby adding to inflation and stalling economic recovery. A petroleum tax or a broader based energy tax also would harm competition, both within the energy industry and in many consuming sectors, cause wasteful temporary fuel switching, and only minimally decrease energy imports.

1/ Unfortunately, a tax option that could serve energy policy goals and economic recovery is not being considered: decontrol of natural gas prices. Natural gas decontrol, without any new tax, could raise as much as $49 billion in new federal revenue between 1982 and 1985. See Madison Consulting Group, "The Tax and Revenue Effects of Natural Gas Deregulation", October 1981. A copy of this report is included for the Committee's record.

Every energy tax option being considered by the Committee will increase consumer costs significantly. Some of the consumer cost increases would not flow to the federal treasury, but be pure windfalls. They will flow to certain producers, competitors who are not taxed, and foreign exporters of natural gas, all of whom could charge higher prices. In addition, the costs would fall unfairly on specific concerning sectors, and on the New England region, without regard for equity, sound tax policy or energy objectives. For these reasons NEPI firmly opposes any increase in energy taxes at this time.

I. OIL IMPORT FEE/PETROLEUM SEVERANCE TAX

A. Adverse Economic Effects

The most harmful alternatives being considered involve taxes solely on petroleum, either in the form of a petroleum severance tax or an oil import fee. A petroleum tax or fee would seriously impair economic recovery. It also would impose grossly disproportionate burdens on millions of consumers, including the 2.43 million home heating oil consumers of New England.

A petroleum tax would have the same impact on the economy as an OPEC price increase, raising all energy prices and contributing substantially to inflation. Indeed, it would have twice the adverse impact, per dollar, of the 1970's OPEC price increases. When OPEC raised prices in the 1970's, domestic oil prices were controlled. Thus, less than one-half of our oil

prices increased. But today, oil has been decontrolled. Consequently, an oil import fee or a petroleum tax would raise all oil prices, not just the price of imports, by the amount of the tax or fee. Prices for heating oil, gasoline, jet fuel, chemical feedstocks and other petroleum products all would likely rise to their highest levels in history this summer and fall.

These results make no sense if our economic objectives are economic recovery and a reduction in inflation. A $5 per barrel fee or tax on petroleum would increase the rate of inflation by .5 to 1.3 percent[2/] and result in a loss in GNP of about $30 billion.[3/] It also would increase unemployment by 100,000 to 400,000 persons.[4/] Surely, this is not a mechanism that will assist in economic recovery.

2/ See Petroleum Industry Research Foundation, Inc., "The Oil Import Fee Issue," April 19, 1982; Congressional Budget Office, "Oil Import Tariffs: Alternative Scenarios and Their Effects," April 1982 ("CBO Study"). Copies are included for the Committee's record.

3/ Id.

4/ CBO Study; Consumer Energy Council of America, "A Comprehensive Analysis of a Crude Oil Import Fee: Dismantling a Trojan Horse," April 1982.

B. Distortions and Inequities

An import fee or a petroleum tax also would cause severe regional, business and personal inequities, particularly to home heating oil consumers. A fee or a tax would harshly, undeservedly and regressively tax the 40-50 million Americans who live in oil heated homes and who already pay the highest oil prices in history for their essential needs. Each would penalize these consumers for the greatest conservation success of the 1970's. A system of hardship exceptions and credits almost surely would be needed to ameliorate these inequities. But even with a complex system of regulatory exceptions, the impacts of a fee or tax would fall most severely and unevenly on consumers in petroleum consuming regions, with much more moderated impacts in gas consuming regions.

It is not fair to single out the families and businesses of America that depend on oil, when no economic or physical alternatives exist. It is not sensible to tax heating oil consumers above the world price for oil while the price of most natural gas is held well below the price of oil at the wellhead.

C. Energy Policy Effects

These inequities and distortions might be tolerable if they were the inevitable result of a critically needed change in energy policy. But they are not. Imposition of an import fee or a petroleum tax would have no useful energy policy

effect. The failure of the Fuel Use Act demonstrates that Congress cannot effectively dictate fuels choices by regulation. Nor can it do so by taxation. In the absence of price and allocation controls, the market will transfer the incidence of these taxes to users of all energy products.

The conservation effects would hardly be noticeable. Conservation of oil products has far outstripped conservation of other energy sources.5/ There is little or no discretionary use of home heating oil. Any small reduction in oil use caused by fuel switching would be offset by increased natural gas consumption, the marginal source for which is imports.

Moreover, a tax or fee will deter storage of petroleum products by further increasing the cost of storage. Petroleum product inventory levels already are low. But inventory levels could fall even further, or could threaten national security interests, if costs of storage increase. A petroleum tax or fee would surely cause a further reduction of inventories.

D. Anti-Competitive Effects

A petroleum tax or fee also would seriously impair competition, both within the petroleum industry and between competing fuels. An oil import fee would give a substantial

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5/ See Eric Hirst and John Trimble, "Analysis of Household Primary Heating Fuel Consumption: Natural Gas and Oil," Oak Ridge, Tennessee, November, 1981. A copy is included for the Committee's record.

competitive advantage to vertically integrated companies with domestic crude reserves. To a significant extent, a petroleum severance tax could be used by integrated companies to accomplish the same result. These firms could use this unfair advantage to drive independent marketers out of business. The fee or tax could be passed through by such firms disproportionately to independent marketers, or on specific products when demand is most inelastic, such as home heating oil during the winter. These results are unavoidable without a massive regulatory system to control passthrough of the tax.

Any petroleum tax or fee also would have devastating effects on competition between oil and gas. Just when the gap between oil and natural gas prices is narrowing, and inefficient fuel switching is ending, a fee or tax would send a shockwave through the petroleum market. The gap between fuel oil and natural gas prices would increase, and residential fuel switching would begin again. Such fuel switching has little, if any, conservation effect.6/ However it drains limited consumer resources into wasteful energy related expenditures.

6/ See House Committee on Interstate and Foreign Commerce Report on H.R. 5726 (Energy Security Act), H.R. Rep. No. 96-727, 96th Cong. 1st Sess. p.16.

II. BTU OR AD VALOREM TAX ON ALL FUELS

A. Adverse Economic Effects

A broad based energy tax, on oil, natural gas, coal and electricity, may eliminate some of the more outrageous inequities of a petroleum tax, but it retains its ultimate detrimental economic effects: higher inflation, reduction in GNP, loss of jobs and unfair regional impacts.7/ There is no evidence that either a BTU tax or an ad valorem (percentage of value) tax on all fuels will assist economic recovery or serve any energy policy objective. To the contrary, it would retard economic recovery and distort energy markets.

In addition, an ad valorem, BTU, or oil product tax would create serious cash flow problems for petroleum marketers similar to a petroleum severance tax or fee. The increased costs of any "upstream" tax carried by marketers would necessitate increased borrowing and further strains on credit lines. The inevitable results would be further decreases in inventory levels, which could jeopardize national security; and more limited credit for homeowners, small businesses and farmers. This would jeopardize, rather than enhance, economic recovery.

7/ See Congressional Research Service, "Policy and Macroeconomic Aspects of a BTU Tax," May 3, 1982. The principal "advantage" of a tax on all fuels compared to a tax on petroleum is that the rate can be established at a much lower level and raise the same amount of revenue, because the tax base could be so much broader.

Given our current low petroleum inventory position, and the conditions in credit markets, these effects could hardly occur at a worse time.

B. Impact on Competitiveness of U.S. Firms

Any across-the-board energy tax raises the price of all energy in domestic markets, thereby making U.S. industry less competitive in world markets.8/ The United States will continue to lose its competitive edge if domestic energy prices are raised above world levels, while Canadian, Japanese, and European energy prices remain at market established levels. This increase in costs would have a particularly detrimental impact on our energy intensive industries, such as chemicals, synthetics, paper, and agriculture.

C. Competitive Injury

In addition, an across-the-board energy tax would cause competitive injury within the petroleum sector, comparable to that resulting from a petroleum tax. If the tax were imposed upstream, at or prior to the refinery gate, it would permit refiners to pass it through unequally on products, and unfairly to independent marketers. Some refiners could use their power in one market to pass through the tax while undercutting competitors in other markets. The resulting injury to

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8/ An oil import fee or a petroleum severance tax could have comparable adverse effects on U.S. competitiveness in world markets.

competition, and to regions served primarily by independent marketers, would lead to further consumer price increases.

D. Distortions and Inequities

A broad based energy tax also would cause inequities among energy consumers. Of the across-the-board tax alternatives, an ad valorem, or percentage excise tax, would tax consumers the most unevenly. Indeed, if it were imposed at the wellhead, it would tax petroleum at rates 2 to 10 times the rate it taxes natural gas, because natural gas wellhead prices are held at artifically low levels by regulation. The differential between oil and natural gas prices would increase as a result of a wellhead ad valorem tax, creating further interfuel distortions.9/ Ironically, an ad valorem tax would place the least burden on those who have access to and competitive advantage from old cheap price controlled gas, while placing the greatest burden on those who rely on more expensive fuels, such as home heating oil consumers. This would distort fuel decisions and increase inequities.

III. CONCLUSION

The energy tax options being considered by the Committee would create social and energy policy inequities, and would probably spawn new regulatory solutions. Each would do so

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9/ The tax rates imposed could be somewhat closer if an ad valorem tax were imposed on the final product just prior to distribution, such as at the refinery gate for petroleum or at the city gate for natural gas.

without any discernible benefit to national energy or economic objectives. A tax on petroleum or on all energy would reverse the most favorable energy, economic development of the past year: the decline in inflation driven by a reduction in oil prices. Accordingly, NEPI strongly urges the Congress not to adopt any new energy tax at this time.

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